EXECUTION COPY

J.P.Morgan

CREDIT AGREEMENT

dated as of

August 10, 2012

among

AMTRUST FINANCIAL SERVICES, INC.

The Lenders Party Hereto

JPMORGAN CHASE BANK, N.A.
as Administrative Agent

KEYBANK NATIONAL ASSOCIATION and
SUNTRUST BANK
as Co-Syndication Agents

and

ASSOCIATED BANK, NATIONAL ASSOCIATION and
LLOYDS SECURITIES INC.
as Co-Documentation Agents

J.P. MORGAN SECURITIES LLC,
KEYBANK NATIONAL ASSOCIATION and
SUNTRUST ROBINSON HUMPHREY, INC.
as Joint Bookrunners and Joint Lead Arrangers

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CREDIT AGREEMENT (this "Agreement") dated as of August 10, 2012 among AMTRUST FINANCIAL SERVICES, INC., the LENDERS from time to time party hereto, JPMORGAN CHASE BANK, N.A., as Administrative Agent, KEYBANK NATIONAL ASSOCIATION and SUNTRUST BANK, as Co-Syndication Agents and ASSOCIATED BANK, NATIONAL ASSOCIATION and LLOYDS SECURITIES INC., as Co-Documentation Agents.

The parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01 Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or Borrowing, refers to a Loan, or the Loans comprising such Borrowing, bearing interest at a rate determined by reference to the Alternate Base Rate.

"Adjusted LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"Administrative Agent" means JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Lenders hereunder.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Aggregate Commitment" means the aggregate of the Commitments of all of the Lenders, as reduced or increased from time to time pursuant to the terms and conditions hereof. As of the Effective Date, the Aggregate Commitment is $200,000,000.

"Agreed Currencies" means (i) Dollars, (ii) euro, (iii) Pounds Sterling, (iv) Canadian Dollars and (v) any other currency that is (x) a lawful currency (other than Dollars) that is readily available and freely transferable and convertible into Dollars, (y) available in the London interbank deposit market and (z) agreed to by the Issuing Bank and the Administrative Agent.

"AII" means AmTrust International Insurance Ltd., a company organized under the laws of Bermuda.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus ½ of 1% and (c) the Adjusted LIBO Rate for a one month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus 1%, provided that, for the avoidance of doubt, the Adjusted LIBO Rate for any day shall be based on the rate appearing on Reuters Screen LIBOR01 Page (or on any successor or substitute page of such page) at approximately 11:00 a.m. London time on such day. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Federal

Funds Effective Rate or the Adjusted LIBO Rate shall be effective from and including the effective date of such change in the Prime Rate, the Federal Funds Effective Rate or the Adjusted LIBO Rate, respectively.

"A.M. Best Company" means A.M. Best Company, Inc., and any successor thereto.

"Applicable Insurance Regulatory Authority" means, when used with respect to any Regulated Insurance Company, (a) the insurance department or similar Governmental Authority located in the state or jurisdiction (domestic or foreign) in which such Regulated Insurance Company is domiciled or (ii) to the extent asserting regulatory jurisdiction over such Regulated Insurance Company, the insurance department, authority or agency in each state or jurisdiction (domestic or foreign) in which such Regulated Insurance Company is licensed, and shall include any federal or national insurance regulatory department, authority or agency that may be created and that asserts insurance regulatory jurisdiction over such Regulated Insurance Company.

"Applicable Percentage" means, with respect to any Lender, the percentage of the Aggregate Commitment represented by such Lender's Commitment; provided that, in the case of Section 2.21 when a Defaulting Lender shall exist, "Applicable Percentage" shall mean the percentage of the Aggregate Commitment (disregarding any Defaulting Lender's Commitment) represented by such Lender's Commitment. If the Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Commitments most recently in effect, giving effect to any assignments and to any Lender's status as a Defaulting Lender at the time of determination.

"Applicable Rate" means, for any day, with respect to any Eurodollar Revolving Loan or any ABR Revolving Loan or with respect to the commitment fees payable hereunder, as the case may be, the applicable rate per annum set forth below under the caption "Eurodollar Spread", "ABR Spread" or "Commitment Fee Rate", as the case may be, based upon the Consolidated Leverage Ratio applicable on such date:

	Consolidated Leverage Ratio:	Eurodollar Spread	ABR Spread	Commitment Fee Rate
Category 1:	< 0.15 to 1.00	1.25%	0.25%	0.20%
Category 2:	≥ 0.15 to 1.00 but < 0.25 to 1.00	1.50%	0.50%	0.25%
Category 3:	≥ 0.25 to 1.00	1.75%	0.75%	0.30%

For purposes of the foregoing,

(i) if at any time the Borrower fails to deliver the Financials on or before the date the Financials are due pursuant to Section 5.01, Category 3 shall be deemed applicable for the period commencing three (3) Business Days after the required date of delivery and ending on the date which is three (3) Business Days after the Financials are actually delivered, after which the Category shall be determined in accordance with the table above as applicable;

(ii) adjustments, if any, to the Category then in effect shall be effective three (3) Business Days after the Administrative Agent has received the applicable Financials (it being

understood and agreed that each change in Category shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change); and

(iii) notwithstanding the foregoing, Category 2 shall be deemed to be applicable until the Administrative Agent's receipt of the applicable Financials for the Borrower's first fiscal quarter ending after the Effective Date (unless such Financials demonstrate that Category 3 should have been applicable during such period, in which case such other Category shall be deemed to be applicable during such period) and adjustments to the Category then in effect shall thereafter be effected in accordance with the preceding paragraphs.

"Approved Fund" has the meaning assigned to such term in Section 9.04.

"Asset Sale" means any Disposition or series of related Dispositions to any Person (other than the Borrower and its Subsidiaries); provided, however, that an Asset Sale shall not include the following: (a) any Disposition permitted pursuant to Section 6.05(a) or Section 6.05(b) (excluding any such sales by operations or divisions discontinued or to be discontinued); (b) any sale or other disposition of cash and Eligible Investments; provided, that, in the case of Eligible Investments, (x) investments in such Eligible Investments were permitted by Section 6.04(b) and (y) such sale or disposition is made solely for and in connection with the Borrower's investment portfolio and in accordance with the Investment Policy of the Borrower; and (c) any sale by the Borrower of its own Equity Interests. For avoidance of doubt, but without limiting the definition of Asset Sale in any manner, any of the following shall be deemed to be an "Asset Sale": (i) any Disposition of any Equity Interest of any Subsidiary; (ii) any Disposition of any assets constituting a business, business unit or division of, or all or substantially all of the business or property of any Person; and (iii) any Disposition of any Equity Interest of any Person (other than any Subsidiary) so long as such Equity Interests were not owned by the Borrower or any of its Subsidiaries solely for investment purposes for the Borrower's investment portfolio in accordance with the Borrower's Investment Policy.

"Assignment and Assumption" means an assignment and assumption agreement entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Augmenting Lender" has the meaning assigned to such term in Section 2.20.

"Available Revolving Commitment" means, at any time with respect to any Lender, the Commitment of such Lender then in effect minus the Revolving Credit Exposure of such Lender at such time.

"Availability Period" means the period from and including the Effective Date to but excluding the earlier of the Maturity Date and the date of termination of the Commitments.

"Bankruptcy Event" means, with respect to any Person, such Person becomes the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, custodian, assignee for the benefit of creditors or similar Person charged with the reorganization or liquidation of its business appointed for it, or, in the good faith determination of the Administrative Agent, has taken any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any such proceeding or appointment, provided that a Bankruptcy Event shall not result solely by virtue of any ownership interest, or the acquisition of any ownership interest, in such Person by a Governmental Authority or instrumentality thereof, provided, further, that such ownership interest does not result in or

provide such Person with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Person (or such Governmental Authority or instrumentality) to reject, repudiate, disavow or disaffirm any contracts or agreements made by such Person.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

"Board of Directors" means, with respect to any Person, (i) in the case of any corporation, the board of directors of such Person, (ii) in the case of any limited liability company, the board of managers of such Person, (iii) in the case of any partnership, the Board of Directors of the general partner of such Person and (iv) in any other case, the functional equivalent of the foregoing.

"Borrower" means AmTrust Financial Services, Inc., a Delaware corporation.

"Borrowing" means Revolving Loans of the same Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

"Borrowing Request" means a request by the Borrower for a Revolving Borrowing in accordance with Section 2.03.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in Dollars in the London interbank market.

"Canadian Dollars" and/or "CAD" means the lawful currency of Canada.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP (excluding all obligations under operating leases required by the Financial Accounting Standards Board to be classified or accounted for as capital leases), and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Change in Control" shall be deemed to have occurred if:

(a) (i) the Permitted Holders (collectively) shall fail to own, or to have the power to vote or direct the voting of, Voting Stock of the Borrower representing more than 35% of the voting power of the total outstanding Voting Stock of the Borrower, (ii) the Permitted Holders (collectively) cease to own Equity Interests representing more than 35% of the total economic interests of the Equity Interests of the Borrower or (iii) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than one or more Permitted Holders, is or becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that for purposes of this clause such person or group shall be deemed to have "beneficial ownership" of all securities that such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of Voting Stock of the Borrower representing more than 25% of the voting power of the total outstanding Voting Stock of the Borrower; or

(b) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Borrower (together with any new directors whose election to such Board of Directors or whose nomination for election was approved by a vote of a majority of the members of the Board of Directors of the Borrower, which members comprising such majority are then still in office and were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Borrower.

"Change in Law" means the occurrence, after the date of this Agreement (or with respect to any Lender, if later, the date on which such Lender becomes a Lender), of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority, or (c) the making or issuance of any request, rules, guideline, requirement or directive (whether or not having the force of law) by any Governmental Authority; provided however, that notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements and directives thereunder, issued in connection therewith or in implementation thereof, and (ii) all requests, rules, guidelines, requirements and directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law" regardless of the date enacted, adopted, issued or implemented.

"Class", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Revolving Loans.

"Code" means the Internal Revenue Code of 1986, as amended.

"Co-Documentation Agent" means each of Associated Bank, National Association and Lloyds Securities Inc. in its capacity as a co-documentation agent for the credit facility evidenced by this Agreement.

"Commitment" means, with respect to each Lender, the commitment of such Lender to make Revolving Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Revolving Credit Exposure hereunder, as such commitment may be (a) reduced or terminated from time to time pursuant to Section 2.09, (b) increased from time to time pursuant to Section 2.20 and (c) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption or other documentation contemplated hereby pursuant to which such Lender shall have assumed its Commitment, as applicable.

"Computation Date" is defined in Section 2.04.

"Connection Income Taxes" means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes.

"Consolidated Fixed Charge Coverage Ratio" means, at any date of determination, with respect to the Borrower and its Subsidiaries on a consolidated basis, the ratio of (a) the maximum cash dividends available to the Borrower from its Regulated Insurance Companies on such date (without prior approval from any Applicable Insurance Regulatory Authority) to (b) the sum of (i) the aggregate amount of all scheduled principal payments on all Indebtedness of the Borrower and its Subsidiaries for the next

succeeding four fiscal quarters of the Borrower, plus (ii) the Consolidated Interest Expense for the Test Period then ended, plus (iii) all Consolidated Shareholder Distributions made during the Test Period then ended. Consolidated Fixed Charge Coverage Ratio shall be further calculated in accordance with Section 6.14(g).

"Consolidated Interest Expense" means, for any period, the total consolidated interest expense of the Borrower and its Subsidiaries for such period determined on a consolidated basis in accordance with GAAP. Consolidated Interest Expense shall be further calculated in accordance with Section 6.14(g).

"Consolidated Leverage Ratio" means, at any date of determination, the ratio of (a) Consolidated Total Debt to (b) Consolidated Total Capitalization.

"Consolidated Net Income" means, for any period, for the Borrower and its Subsidiaries on a consolidated basis, the net income of the Borrower and its Subsidiaries for such period as such amount would be shown on the consolidated financial statements of the Borrower for such period prepared in accordance with GAAP.

"Consolidated Net Worth" means, as of any date of determination, the Net Worth of the Borrower and its Subsidiaries determined on a consolidated basis in accordance with GAAP after appropriate deduction for any minority interests in Subsidiaries; provided that the aggregate outstanding amount of trust preferred securities of the Borrower and its Subsidiaries shall only be included in Consolidated Net Worth to the extent such amount would be included in a determination of the consolidated net worth of the Borrower and its Subsidiaries under the applicable procedures and guidelines of SAP as of the date hereof.

"Consolidated Shareholder Distributions" means all payments, dividends or distributions made by the Borrower to any holder of the Equity Interest of the Borrower.

"Consolidated Surplus" means, at any date of determination, "surplus as regards to policyholders" (calculated in accordance with SAP) of the Borrower and its Subsidiaries, on a consolidated basis.

"Consolidated Total Capitalization" means, as of any date of determination, the sum of (i) the principal amount of all outstanding Consolidated Total Debt and (ii) Consolidated Net Worth at such time.

"Consolidated Total Debt" means, at any date of determination, all Indebtedness of the Borrower and its Subsidiaries on a consolidated basis, plus, without duplication, all Indebtedness of the Borrower in respect of the Junior Subordinated Debentures, less the sum of the following: (i) the Maiden Debt; (ii) the aggregate principal amount outstanding in respect of the Borrower's obligations to repurchase securities pursuant to Repurchase Agreements; (iii) the aggregate amount of the Repurchase Liability; and (iv) the aggregate amount of Guarantees otherwise included in such Indebtedness. Notwithstanding the foregoing, Indebtedness in respect of letters of credit shall not be included in the determination of Consolidated Total Debt to the extent that any such letter of credit is undrawn as of the date of determination.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Controlled Charitable Foundations" means, with respect to any individual, charitable foundations that are controlled by such individual.

"Controlled Entities" means, with respect to any Family Trust, the corporations, limited liability companies, trusts, partnerships or other similar entities that are assets of such Family Trust and are controlled by such Family Trust.

"Co-Syndication Agent" means each of KeyBank National Association and SunTrust Bank in its capacity as a co-syndication agent for the credit facility evidenced by this Agreement.

"Credit Event" means a Borrowing, the issuance of a Letter of Credit, an LC Disbursement or any of the foregoing.

"Credit Party" means the Administrative Agent, the Issuing Bank or any other Lender.

"Debenture Indentures" means the indentures governing the Junior Subordinated Debentures, including the Existing Debentures.

"Debtor Relief Laws" means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States, any state thereof or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Defaulting Lender" means any Lender that (a) has failed, within two Business Days of the date required to be funded or paid, to (i) fund any portion of its Loans, (ii) fund any portion of its participations in Letters of Credit or (iii) pay over to any Credit Party any other amount required to be paid by it hereunder, unless, in the case of clause (i) above, such Lender notifies the Administrative Agent in writing that such failure is the result of such Lender's good faith determination that a condition precedent to funding (specifically identified and including the particular default, if any) has not been satisfied, (b) has notified the Borrower or any Credit Party in writing, or has made a public statement to the effect, that it does not intend or expect to comply with any of its funding obligations under this Agreement (unless such writing or public statement indicates that such position is based on such Lender's good faith determination that a condition precedent (specifically identified and including the particular default, if any) to funding a Loan under this Agreement cannot be satisfied) or generally under other agreements in which it commits to extend credit, (c) has failed, within three Business Days after request by a Credit Party, acting in good faith, to provide a certification in writing from an authorized officer of such Lender that it will comply with its obligations (and is financially able to meet such obligations) to fund prospective Loans and participations in then outstanding Letters of Credit under this Agreement, provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon such Credit Party's receipt of such certification in form and substance satisfactory to it and the Administrative Agent, or (d) has become the subject of a Bankruptcy Event.

"Disposition" means a sale, lease or sub-lease (as lessor or sublessor), sale and leaseback, assignment, conveyance, transfer or other disposition to any Person, in one transaction or a series of transactions, of all or any part of the Borrower's or any of its Subsidiaries' businesses, assets or properties of any kind, whether real, personal, or mixed and whether tangible or intangible, whether now owned or

hereafter acquired, including, without limitation, notes and accounts receivable and the Equity Interests of the Borrower's Subsidiaries.

"Dollar Amount" of any currency at any date shall mean (i) the amount of such currency if such currency is Dollars or (ii) the equivalent amount thereof in Dollars if such currency is a Foreign Currency, calculated on the basis of the Exchange Rate for such currency, on or as of the most recent Computation Date provided for in Section 2.04 or, in the case of a LC Disbursement, on or as of the date of such LC Disbursement.

"Dollars" or "$" refers to lawful money of the United States of America.

"Domestic Subsidiary" means any Subsidiary of the Borrower other than a Foreign Subsidiary.

"Effective Date" means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 9.02).

"Eligible Investments" means (a) Permitted Investments, (b) investments in debt and/or equity securities, (c) investments in loan portfolios, (d) investments in derivatives and other financial instruments and (e) Repurchase Agreements.

"Environmental Laws" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"Equity Interests" means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such equity interest.

"Equivalent Amount" of any currency with respect to any amount of Dollars at any date shall mean the equivalent in such currency of such amount of Dollars, calculated on the basis of the Exchange Rate for such other currency at 11:00 a.m., London time, on the date on or as of which such amount is to be determined.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or,

solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30 day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"euro" and/or "EUR" means the single currency of the Participating Member States.

"Eurodollar", when used in reference to any Loan or Borrowing, means that such Loan, or the Loans comprising such Borrowing, bears interest at a rate determined by reference to the Adjusted LIBO Rate.

"Event of Default" has the meaning assigned to such term in Article VII.

"Exchange Rate" means, on any day, with respect to any Foreign Currency, the rate at which such Foreign Currency may be exchanged into Dollars, as set forth at approximately 11:00 a.m., New York City time, on such date on the Reuters World Currency Page for such Foreign Currency. In the event that such rate does not appear on any Reuters World Currency Page, the Exchange Rate with respect to such Foreign Currency shall be determined by reference to such other publicly available service for displaying exchange rates as may be reasonably selected by the Administrative Agent or, in the event no such service is selected, such Exchange Rate shall instead be calculated on the basis of the arithmetical mean of the buy and sell spot rates of exchange of the Administrative Agent for such Foreign Currency on the London market at 11:00 a.m., New York City time, on such date for the purchase of Dollars with such Foreign Currency, for delivery two Business Days later; provided, that if at the time of any such determination, for any reason, no such spot rate is being quoted, the Administrative Agent, after consultation with the Borrower, may use any reasonable method it deems appropriate to determine such rate, and such determination shall be conclusive absent manifest error.

"Excluded Taxes" means, with respect to any payment made by the Borrower under any Loan Document, any of the following Taxes imposed on or with respect to a Recipient:

(a) income or franchise Taxes imposed on (or measured by) net income, in each case, (i) imposed by the United States of America or any state or political subdivision thereof, or by the jurisdiction under the laws of which such Recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located or (ii) that are Other Connection Taxes, (b) any branch profits Taxes imposed by the United States of America or any similar Taxes imposed by any other jurisdiction in which the Borrower is located, (c) in the case of a Non-U.S. Lender (other than an assignee pursuant to a request by the

Borrower under Section 2.19(b)), any U.S. Federal withholding Taxes resulting from any law in effect on the date such Non-U.S. Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Non U.S. Lender's failure to comply with Section 2.17(f), except to the extent that such Non-U.S. Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding Taxes pursuant to Section 2.17(a) and (d) any U.S. Federal withholding Taxes imposed under FATCA.

"Existing Credit Facility" means the credit facility evidenced by that certain Credit Agreement, dated as of January 28, 2011, by and between the Borrower, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent, as amended, restated, supplemented or otherwise modified prior to the date hereof.

"Existing Debentures" means, collectively, the following: (a) the fixed/floating rate junior subordinated deferrable interest debentures due 2037 of the Borrower in the original aggregate principal amount of $40.0 million; (b) the fixed/floating rate junior subordinated deferrable interest debentures due 2036 of the Borrower in the original aggregate principal amount of $30.0 million; (c) the fixed/floating rate junior subordinated deferrable interest debentures due March 2035 of the Borrower in the original aggregate principal amount of $25.0 million; and (d) the fixed/floating rate junior subordinated deferrable interest debentures due June 2035 of the Borrower in the original aggregate principal amount of $25.0 million; in each case with respect to the foregoing, issued to TOPS Trusts pursuant to the applicable Existing Indenture, and as the same may be further amended, amended and restated, supplemented or otherwise modified from time to time in accordance with Section 6.13.

"Existing Guarantees" means, collectively, the following: (a) the Guarantee Agreement, dated as of March 17, 2005, by and between the Borrower, as guarantor, and Wilmington Trust Company, and issued in connection with the Structured Securities issued on or about March 17, 2005; (b) the Guarantee Agreement, dated as of June 15, 2005, by and between the Borrower, as guarantor, and Wilmington Trust Company, and issued in connection with the Structured Securities issued on or about June 15, 2005; (c) the Guarantee Agreement, dated July 25, 2006, by and between the Borrower, as guarantor, and Wilmington Trust Company, and issued in connection with the Structured Securities issued on or about July 25, 2006; and (d) the Guarantee Agreement, dated as of March 22, 2007, by and between the Borrower, as guarantor, and Wilmington Trust Company, and issued in connection with the Structured Securities issued on or about March 22, 2007; in each case pursuant to which the Borrower agreed to guarantee the payment of distributions and payments on liquidation or redemption of the trust preferred securities issued in connection therewith, but only in each case to the extent of funds held by the trust that issued such trust preferred securities (such obligations of the Borrower under such guarantee agreement are subordinate to all of the Borrower's senior and subordinated debt).

"Existing Indentures" means the indentures governing the Existing Debentures, as the same may be further amended, amended and restated, supplemented or otherwise modified from time to time in accordance with Section 6.13.

"Existing Letters of Credit" has the meaning assigned to such term in Section 2.06(a).

"Existing Regulated Insurance Companies" means, collectively, the Subsidiaries of the Borrower set forth on Schedule 1.01(a).

"Existing Structured Securities" means, collectively, (a) each of the Existing Debentures, (b) the common securities issued by the applicable TOPS Trust to the Borrower in connection with such Existing Debentures, (c) the trust preferred securities issued by such TOPS Trust in connection with such

Existing Debentures having substantially similar terms as such Existing Debentures and (d) the Existing Guarantees and any other guarantee agreement executed and delivered by the Borrower with respect to such issued trust preferred securities, all of the foregoing as described in either (x) the Borrower's Form 8-K filed by the Borrower with the SEC on March 22, 2007, or (y) Amendment No. 5 to the Borrower's Form S-1 filed by the Borrower with the SEC on November 8, 2006, as the case may be, and all of the foregoing in clauses (a), (b), (c) and (d) above as may be further amended, amended and restated, supplemented or otherwise modified from time to time in accordance with Section 6.13.

"Extended Letter of Credit" has the meaning assigned to such term in Section 2.06(c).

"Family Member" means, with respect to any individual, any other individual having a relationship by blood (to the second degree of consanguinity), marriage, or adoption to such individual.

"Family Trusts" means, with respect to any individual, trusts or other estate planning vehicles established for the benefit of such individual or Family Members of such individual and in respect of which such individual or a Family Member of such individual serves as trustee or in a similar capacity and has sole control.

"FATCA" means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof.

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Financial Officer" of any Person means the chief financial officer, principal accounting officer, treasurer or controller of such Person.

"Financials" means the annual or quarterly financial statements, and accompanying certificates and other documents, of the Borrower and its Subsidiaries required to be delivered pursuant to Section 5.01(a) or 5.01(b).

"Foreign Currencies" means Agreed Currencies other than Dollars.

"Foreign Currency LC Exposure" means, at any time, the sum of (a) the Dollar Amount of the aggregate undrawn and unexpired amount of all outstanding Foreign Currency Letters of Credit at such time plus (b) the aggregate principal Dollar Amount of all LC Disbursements in respect of Foreign Currency Letters of Credit that have not yet been reimbursed at such time.

"Foreign Currency Letter of Credit" means a Letter of Credit denominated in a Foreign Currency.

"Foreign Pension Plan" means any plan, fund (including any superannuation fund) or other similar program established or maintained outside the United States by the Borrower or any one or more of its Subsidiaries primarily for the benefit of employees of the Borrower or such Subsidiaries residing outside the United States, which plan, fund or other similar program provides, or results in,

retirement income, a deferral of income in contemplation of retirement or payments to be made upon termination of employment, and which plan is not subject to ERISA or the Code.

"Foreign Subsidiary" means any Subsidiary of the Borrower which is organized under the laws of any jurisdiction outside of the United States.

"GAAP" means generally accepted accounting principles in the United States of America.

"Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" of or by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment or performance thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term Guarantee shall not include (i) endorsements for collection or deposit in the ordinary course of business or (ii) Insurance Products. The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term "Guarantee" as a verb has a corresponding meaning.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Historical Statutory Statements" has the meaning assigned to such term in Section 3.04(b).

"Increasing Lender" has the meaning assigned to such term in Section 2.20.

"Incremental Term Loan" has the meaning assigned to such term in Section 2.20.

"Incremental Term Loan Amendment" has the meaning assigned to such term in Section 2.20.

"Indebtedness" of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind; (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments; (c) all obligations of such Person upon which interest charges are customarily paid or accrued; (d) all obligations of such Person

under conditional sale or other title retention agreements relating to property acquired by such Person; (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business on normal trade terms and not overdue by more than 90 days); (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, but limited to the fair market value of such property; (g) all Capital Lease Obligations and synthetic lease obligations of such Person; (h) all Swap Obligations of such Person; (i) all obligations, contingent or otherwise, of such Person for the reimbursement of any obligor in respect of letters of credit, letters of guaranty, bankers' acceptances and similar credit transactions; (j) the redemption price of all redeemable preferred stock of such Person (but not accrued dividends on any preferred stock), but only to the extent that such stock is redeemable at the option of the holder or requires sinking fund or similar payments at any time prior to the Maturity Date; and (k) all Guarantees by such Person in respect of Indebtedness or obligations of others of the kinds referred to in clauses (a) through (j) above. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

"Indemnified Taxes" means (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by the Borrower under any Loan Document and (b) Other Taxes.

"Insurance Business" means one or more aspects of the business of issuing or underwriting insurance or reinsurance and other businesses reasonably related thereto.

"Insurance Licenses" has the meaning assigned to such term in Section 3.16.

"Insurance Model Act" means the Risk-Based Capital for Insurers Model Act as promulgated by the NAIC, as amended from time to time.

"Insurance Products" means any product provided by an insurer or service contract provider in its insurance or warranty business whereby such insurer or service contract provider undertakes to pay or indemnify another as to loss from certain specified contingencies or perils called "risks" or to pay or grant a specified amount or determinable benefit in connection with ascertainable risk contingencies or to act as a surety, including, without limitation, reinsurance agreements, reinsurance treaties, reinsurance pools, property and casualty insurance products, accident and health insurance products, life insurance products, surety bonds, specialty risk insurance programs, warranty programs, insurance loss portfolio transfers and any other insurance or reinsurance product related to the acceptance of risk or commitment to pay or indemnify another for specific types of losses.

"Interest Election Request" means a request by the Borrower to convert or continue a Revolving Borrowing in accordance with Section 2.08.

"Interest Payment Date" means (a) with respect to any ABR Loan, the last Business Day of each March, June, September and December and the Maturity Date and (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period and the Maturity Date.

"Interest Period" means with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Borrower may elect; provided, that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period pertaining to a Eurodollar Borrowing that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and, in the case of a Revolving Borrowing, thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

"Investment Policy" means the investment policy of the Borrower as in effect from time to time.

"Investments" has the meaning assigned to such term in Section 6.04.

"IRS" means the United States Internal Revenue Service.

"Issuing Bank" means JPMorgan Chase Bank, N.A., in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.06(i). The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate so long as such Affiliate expressly agrees to perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as the Issuing Bank.

"Junior Subordinated Debentures" means, collectively, the following: (a) the Existing Debentures; and (b) any other subordinated debentures which (i) by their terms (or by the terms of any security into which they are convertible or for which they are exchangeable at the option of the holder thereof), or upon the happening of any event mature or are mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or are redeemable at the sole option of the holder thereof on or after the Maturity Date, (ii) are issued pursuant to Debenture Indentures, (iii) are issued to a TOPS Trust which issues to investors, simultaneously with the issues of such debentures, trust preferred securities having substantially similar terms as such debentures, (iv) mature after, and do not require any scheduled amortization or other scheduled payments of principal prior to, the date that is 367 days after the Maturity Date and (v) are reasonably acceptable to the Administrative Agent, in each case with respect to foregoing in clause (b) above, as the same may be further amended, amended and restated, supplemented or otherwise modified from time to time in accordance with Section 6.13.

"LC Collateral Account" has the meaning assigned to such term in Section 2.06(j).

"LC Disbursement" means a payment made by the Issuing Bank pursuant to a Letter of Credit.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn Dollar Amount of all outstanding Letters of Credit at such time plus (b) the aggregate Dollar Amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC

Exposure of any Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time.

"LC Sublimit" means $100,000,000.

"Lenders" means the Persons listed on Schedule 2.01 and any other Person that shall have become a Lender hereunder pursuant to Section 2.20 or pursuant to an Assignment and Assumption, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Assumption.

"Letter of Credit" means any letter of credit issued pursuant to this Agreement.

"LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Reuters Screen LIBOR01 Page (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to deposits in Dollars in the London interbank market) at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period, as the rate for deposits in Dollars with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBO Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which deposits in Dollars in an amount equal to $5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Loan Documents" means this Agreement, any promissory notes issued pursuant to Section 2.10(e) of this Agreement, any Letter of Credit applications and all other agreements, instruments, documents and certificates identified in Section 4.01 executed and delivered to, or in favor of, the Administrative Agent or any Lenders and including all other pledges, powers of attorney, consents, assignments, contracts, notices, letter of credit agreements and all other written matter whether heretofore, now or hereafter executed by or on behalf of the Borrower, or any employee of the Borrower, and delivered to the Administrative Agent or any Lender in connection with this Agreement or the transactions contemplated hereby. Any reference in this Agreement or any other Loan Document to a Loan Document shall include all appendices, exhibits or schedules thereto, and all amendments, restatements, supplements or other modifications thereto, and shall refer to this Agreement or such Loan Document as the same may be in effect at any and all times such reference becomes operative.

"Loans" means the loans made by the Lenders to the Borrower pursuant to this Agreement.

"Maiden Debt" means all Indebtedness and other obligations and liabilities of AII to Maiden Insurance under a loan agreement between AII and Maiden Insurance, pursuant to which Maiden Insurance lends funds to AII from time to time for the amount of the obligations of the Borrower's U.S., Irish and U.K. insurance companies (the "AmTrust Ceding Insurers") that AII is obligated to secure, not

to exceed an amount equal to Maiden Insurance's proportionate share of such obligations to such AmTrust Ceding Insurers in accordance with certain quota share reinsurance agreements, all of the foregoing as described in the Borrower's Form 10-Q filed by the Borrower with the SEC on November 9, 2010, as such loan agreement and any other documents entered into in connection therewith may be amended from time to time.

"Maiden Insurance" means Maiden Insurance Company, Ltd., a company organized under the laws of Bermuda and a wholly-owned subsidiary of Maiden Holdings, Inc., a Bermuda insurance holding company.

"Majestic" means Majestic Insurance Company, a California corporation.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations or condition (financial or otherwise) of the Borrower and the Subsidiaries taken as a whole or (b) the validity or enforceability of this Agreement or any and all other Loan Documents or the rights or remedies of the Administrative Agent and the Lenders thereunder.

"Material Indebtedness" means Indebtedness (other than the Loans and Letters of Credit) of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding the Threshold Amount. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of the Borrower or any Subsidiary in respect of any Swap Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such Swap Agreement were terminated at such time.

"Maturity Date" means August 10, 2016.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"NAIC" means the National Association of Insurance Commissioners and any successor thereto.

"Net Worth" means, as to any Person, the sum of its capital stock (including its preferred stock), capital in excess of par or stated value of shares of its capital stock (including its preferred stock), retained earnings and any other account which, in accordance with GAAP, constitutes stockholders equity, but excluding the effects of Financial Accounting Statement No. 115.

"Non-U.S. Lender" means a Lender that is not a U.S. Person.

"Obligations" means (a) all obligations of the Borrower from time to time arising under or in respect of the due and punctual payment of (i) the principal of and premium, if any, and interest (including interest accruing during the pendency of any proceeding under any Debtor Relief Laws, regardless of whether allowed or allowable in such proceeding) on the Loans, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, and (ii) all other monetary obligations, including fees, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any proceeding under any Debtor Relief Laws, regardless of whether allowed or allowable in such proceeding), of the Borrower under this Agreement and the other Loan Documents, and (b) the due and

punctual performance of all covenants, agreements, obligations and liabilities of the Borrower under or pursuant to this Agreement and the other Loan Documents.

"Organizational Documents" means, with respect to any Person, (i) in the case of any corporation, the certificate of incorporation and by-laws (or similar documents) of such Person, (ii) in the case of any limited liability company, the certificate of formation and operating agreement (or similar documents) of such Person, (iii) in the case of any limited partnership, the certificate of formation and limited partnership agreement (or similar documents) of such Person, (iv) in the case of any general partnership, the partnership agreement (or similar document) of such Person and (v) in any other case, the functional equivalent of the foregoing.

"Other Connection Taxes" means, with respect to any Recipient, Taxes imposed as a result of a present or former connection between such Recipient and the jurisdiction imposing such Taxes (other than a connection arising from such Recipient having executed, delivered, enforced, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, or engaged in any other transaction pursuant to, or enforced, any Loan Document, or sold or assigned an interest in any Loan Document).

"Other Taxes" means any present or future stamp, court, documentary, intangible, recording, filing or similar excise or property Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, or from the registration, receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment (other than an assignment under Section 2.19(b)).

"Overnight Foreign Currency Rate" means, for any amount payable in a Foreign Currency, the rate of interest per annum as determined by the Administrative Agent at which overnight or weekend deposits in the relevant currency (or if such amount due remains unpaid for more than three (3) Business Days, then for such other period of time as the Administrative Agent may elect) for delivery in immediately available and freely transferable funds would be offered by the Administrative Agent to major banks in the interbank market upon request of such major banks for the relevant currency as determined above and in an amount comparable to the unpaid principal amount of the related LC Disbursement, plus any taxes, levies, imposts, duties, deductions, charges or withholdings imposed upon, or charged to, the Administrative Agent by any relevant correspondent bank in respect of such amount in such relevant currency.

"Parent" means, with respect to any Lender, any Person as to which such Lender is, directly or indirectly, a subsidiary.

"Participant" has the meaning assigned to such term in Section 9.04.

"Participant Register" has the meaning assigned to such term in Section 9.04(c).

"Participating Member State" means any member state of the European Union that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Union relating to economic and monetary union.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Permitted Acquisition" means any acquisition, whether by purchase, merger, consolidation or otherwise, by the Borrower or any of its Subsidiaries of (a) all or substantially all of the property of any Person, or of any business, book of business, business unit or division of any Person or (b) Equity Interests of any Person, and otherwise causing such Person to become a Subsidiary, if each of the following conditions is met:

(i) in the case of the acquisition of Equity Interest of such Person, upon the consummation thereof, such Equity Interests acquired or otherwise issued by such Person or any newly-formed Subsidiary of the Borrower in connection with such acquisition shall be wholly-owned directly by the Borrower or one or more Subsidiaries;

(ii) in the case of the acquisition of all or substantially all of the property of or of any business, business unit or division of any Person, in each case, upon the consummation thereof, such property, business, business unit or division shall be wholly-owned directly by the Borrower or one or more Subsidiaries;

(iii) no Default then exists or would result therefrom;

(iv) after giving effect to such acquisition on a Pro Forma Basis, the Borrower shall be in compliance with Section 6.14(c) as of the last day of the Test Period most recently ended (as determined in accordance with Section 6.14(g));

(v) neither the Borrower nor any of its Subsidiaries shall, in connection with any such transaction, assume or remain liable with respect to any Indebtedness or other liability (including any material tax or ERISA liability) of the related seller or the business, Person or properties acquired, except (A) to the extent permitted under Section 6.01 and (B) obligations not constituting Indebtedness incurred in the ordinary course of business and necessary or desirable to the continued operation of the underlying properties, and any other such liabilities or obligations not permitted to be assumed or otherwise supported by the Borrower or any other Subsidiary hereunder shall be paid in full or released as to the business, Persons or properties being so acquired on or before the consummation of such acquisition;

(vi) the Person or business to be acquired shall be, or shall be engaged in, a business of the type that the Borrower and its Subsidiaries are permitted to be engaged in under Section 6.10, the property acquired in connection with any such transaction shall be free and clear of any Liens, other than Permitted Encumbrances and Liens permitted under Section 6.02(h) and the property to be acquired is to be used in a business of the type that the Borrower and its Subsidiaries are permitted to be engaged in under Section 6.10;

(vii) the Board of Directors of the Person to be acquired shall not have indicated publicly its opposition to the consummation of such acquisition (which opposition has not been publicly withdrawn);

(viii) transactions in connection therewith shall be consummated in accordance with all applicable Requirements of Law;

(ix) in connection with a transaction involving consideration in excess of $75,000,000, the Borrower shall have provided the Administrative Agent with financial statements of the Person or business to be acquired and all such other information and data relating to such transaction or the Person or business to be acquired as may be reasonably requested by the Administrative Agent; and

(x) at least 5 Business Days prior to the proposed date of consummation of the transaction involving consideration in excess of $10,000,000, the Borrower shall have delivered to the Administrative Agent a certificate of a Financial Officer of the Borrower certifying that (A) such transaction complies with this definition (which shall have attached thereto reasonably detailed backup data and calculations showing such compliance), and (B) such transaction could not reasonably be expected to result in a Material Adverse Effect.

"Permitted Call Spread Swap Agreements" means (a) a Swap Agreement pursuant to which the Borrower acquires a call option requiring the counterparty thereto to deliver to the Borrower shares of common stock of the Borrower, the cash value of such shares or a combination thereof from time to time upon exercise of such option and (b) a Swap Agreement pursuant to which the Borrower issues to the counterparty thereto warrants to acquire common stock of the Borrower, in each case entered into by the Borrower concurrently with the issuance of Permitted Convertible Notes; provided that (i) the terms, conditions and covenants of each such Swap Agreement shall be such as are typical and customary for Swap Agreements of such type (as determined by the Board of Directors of the Borrower in good faith) and (ii) in the case of clause (b) above, such Swap Agreement would be classified as an equity instrument in accordance with EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, or any successor thereto (including pursuant to the Accounting Standards Codification), and the settlement of such Swap Agreement does not require the Borrower to make any payment in cash or cash equivalents that would disqualify such Swap Agreement from so being classified as an equity instrument.

"Permitted Convertible Notes" means any unsecured notes issued by the Borrower that are convertible into common stock of the Borrower, cash or any combination thereof; provided that the Indebtedness thereunder satisfies the following requirements: (i) both immediately prior to and after giving effect (including pro forma effect) thereto, no Default or Event of Default shall exist or result therefrom, (ii) such Indebtedness matures after, and does not require any scheduled amortization or other scheduled payments of principal prior to, the date that is 367 days after the Maturity Date (it being understood that any early conversion (i.e. prior to the stated maturity date of the Indebtedness) of any Permitted Convertible Notes in accordance with the terms thereof shall violate the foregoing restriction), (iii) such Indebtedness is not guaranteed by any Subsidiary of the Borrower and (iv) the aggregate principal amount of Indebtedness permitted to be issued or incurred under this definition shall not exceed $200,000,000 at any time outstanding.

"Permitted Encumbrances" means:

(a) Liens for Taxes not yet due or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 30 days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person;

(c) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, other than any Lien imposed by ERISA;

(d) Liens given in lieu of surety, stay or appeal bonds or deposits required by law or any governmental regulations, court order or judgment as a condition to the transaction of business or the exercise of any right, privilege or license;

(e) Liens securing judgments not constituting an Event of Default under clause (k) of Article VII;

(f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Borrower or any Subsidiary;

(g) Liens granted in the ordinary course of business and consistent with past practices on invested assets pursuant to trust, withheld balances or other security arrangements in connection with (i) reinsurance policies entered into in the ordinary course of business or (ii) regulatory requirements;

(h) Liens granted or arising in the ordinary course of business under or in connection with Insurance Products; and

(i) Liens created by the Borrower or any Subsidiary in the ordinary course of business over deposits or investments pursuant to statutory or regulatory requirements of any Applicable Insurance Regulatory Authority as a condition to obtaining or maintaining any licenses issued by it or to satisfy regulatory capital or other financial responsibility requirements.

provided that the term “Permitted Encumbrances” shall not include any Lien securing Indebtedness.

“Permitted Holders” means, collectively, (a) George Karfunkel and his Permitted Related Persons, (b) Michael Karfunkel and his Permitted Related Persons, and (c) Barry D. Zyskind and his Permitted Related Persons.

“Permitted Investments” means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

(b) investments in commercial paper maturing within one year from the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or from Moody’s;

(c) investments in certificates of deposit, banker’s acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than $500,000,000;

(d) fully collateralized repurchase agreements with a term of not more than thirty (30) days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (c) above; and

(e) money market funds that (i) comply with the criteria set forth in SEC Rule 2a-7 under the Investment Company Act of 1940, (ii) are rated AAA by S&P and Aaa by Moody's and (iii) have portfolio assets of at least $5,000,000,000.

"Permitted Majestic Acquisition" means the acquisition by the Borrower of the renewal rights to Majestic's workers' compensation insurance business in consideration, in part, of the assumption by the Borrower of all of Majestic's liabilities under outstanding workers' compensation insurance policies (including federal longshore and harbor workers' compensation act ("USL&H") policies) through a loss portfolio transfer and quota share reinsurance agreement by which the Borrower will receive from Majestic cash and invested assets in an amount equal to Majestic's reserves for such liabilities, as adjusted in the agreement. It is understood and agreed that, as required by law, a significant portion of Majestic's assets to be received by the Borrower are on deposit with the State of California, other U.S. states and the U.S. Department of Labor as security for its obligations to workers' compensation and USL&H policyholders and will continue to be on deposit following the consummation of the Permitted Majestic Acquisition.

"Permitted Majestic Indebtedness" means the reimbursement obligations of the Borrower under the letter of credit facility established by the Borrower as a result of the Permitted Majestic Acquisition for the sole purpose of complying with the deposit requirements of the State of California and the U.S. Department of Labor as security for the Borrower's obligations to workers' compensation and USL&H policyholders in connection with the business acquired by the Borrower pursuant to the Permitted Majestic Acquisition.

"Permitted Majestic Liens" means the liens encumbering the cash or investment assets of the Borrower that secure the Permitted Majestic Indebtedness (but excluding, for the avoidance of doubt, any other Indebtedness or other obligations other than customary margin requirements in respect of letter of credit facilities similar to the Permitted Majestic Indebtedness).

"Permitted Qualifying Subordinated Indebtedness" means unsecured Indebtedness of the Borrower; provided that (i) both immediately prior to and after giving effect (including pro forma effect) thereto, no Default or Event of Default shall exist or result therefrom, (ii) such Indebtedness matures after, and does not require any scheduled amortization or other scheduled payments of principal prior to, the date that is 367 days after the Maturity Date, (iii) such Indebtedness is not guaranteed by any Subsidiary of the Borrower other than the Subsidiary Guarantors (which guarantees shall be expressly subordinated to the Obligations on terms reasonably acceptable to the Administrative Agent), (iv) such Indebtedness shall be expressly subordinated to the Obligations on terms reasonably acceptable to the Administrative Agent and (v) the aggregate principal amount of Indebtedness permitted to be issued or incurred under this definition shall not exceed $100,000,000 at any time outstanding.

"Permitted Related Persons" means, with respect to any individual, (a) the Family Members of such individual, (b) the Family Trusts of such individual and the Controlled Entities of such Family Trusts and (c) the Controlled Charitable Foundations of such individual.

"Permitted Tax Incentive Financing Transactions" means the transactions described on Schedule 1.01(b).

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and

in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Pounds Sterling" means the lawful currency of the United Kingdom.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank, N.A. as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"Pro Forma Basis" means on a basis in accordance with GAAP and Regulation S-X and otherwise reasonably satisfactory to the Administrative Agent.

"Purchase Money Obligation" means, for any Person, the obligations of such Person in respect of Indebtedness (including Capital Lease Obligations) incurred for the purpose of financing all or any part of the purchase price of any fixed or capital assets or the cost of installation, construction or improvement of any such assets and any refinancing thereof; provided, however, that (i) such Indebtedness is incurred within one year after such acquisition, installation, construction or improvement of such assets by such person and (ii) the amount of such Indebtedness does not exceed 100% of the cost of such acquisition, installation, construction or improvement, as the case may be.

"Recipient" means, as applicable, (a) the Administrative Agent, (b) any Lender and (c) the Issuing Bank.

"Register" has the meaning assigned to such term in Section 9.04.

"Regulated Insurance Company" means any Subsidiary of the Borrower that is an authorized or admitted insurance carrier that transacts Insurance Business in any jurisdiction (foreign or domestic) and is regulated by any Applicable Insurance Regulatory Authority.

"Regulation S-X" means Regulation S-X under the Securities Act of 1933, as amended.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Repurchase Agreement" means a repurchase agreement entered into by the Borrower from time to time pursuant to which the Borrower shall have sold securities to a third party and has agreed to repurchase such security at a specified time in the future; provided, that such repurchase agreement shall have been entered into by the Borrower solely in connection with the Borrower's investment portfolio and in accordance with the Investment Policy of the Borrower.

"Repurchase Liability" means, at any date of determination, the liability of the Borrower to purchase securities in the market that are identical to those securities it borrowed and sold pursuant to Repurchase Transactions (it being understood that such liability shall be measured based on the then market value of such security).

"Repurchase Transaction" means a repurchase transaction in which the Borrower borrows a security and delivers it to a purchaser and at a later date, the Borrower purchases the identical security in the market to replace the borrowed security; provided, that such transaction shall have been

entered into by the Borrower solely in connection with the Borrower's investment portfolio and in accordance with the Investment Policy of the Borrower.

"Required Lenders" means, subject to Section 2.21(b), at any time, Lenders having Revolving Credit Exposures and unused Commitments representing more than 50% of the sum of the total Revolving Credit Exposures and unused Commitments at such time.

"Requirements of Law" means, collectively, any and all requirements of any Governmental Authority including any and all laws, judgments, orders, decrees, ordinances, rules, regulations, statutes or case law.

"Responsible Officer" of any Person means any executive officer or Financial Officer of such person and any other officer or similar official thereof with responsibility for the administration of the obligations of such Person in respect of this Agreement.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property) with respect to any Equity Interest or other equity interest of the Borrower or any of its Subsidiaries, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, defeasance, acquisition, cancellation or termination of any such Equity Interest or other equity interest, or on account of any return of capital to any of such Person's stockholders, partners or members (or the equivalent of any thereof), or any option, warrant or other right to acquire any such Equity Interest or other equity interests.

"Revolving Credit Exposure" means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender's Revolving Loans and its LC Exposure at such time.

"Revolving Loan" means a Loan made pursuant to Section 2.01.

"S&P" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business.

"SAP" means, with respect to any Regulated Insurance Company, the statutory accounting principles and accounting procedures and practices prescribed or permitted by the Applicable Insurance Regulatory Authority of the state or jurisdiction in which such Regulated Insurance Company is domiciled; it being understood and agreed that determinations in accordance with SAP for purposes of Section 6.14, including defined terms as used therein, are subject (to the extent provided therein) to Section 1.04.

"SEC" means the United States Securities and Exchange Commission.

"Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D of the Board. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D of the Board or any comparable regulation. The

Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Statutory Statements" means, with respect to any Regulated Insurance Company for any fiscal year, the annual or quarterly financial statements of such Regulated Insurance Company as required to be filed with the Applicable Insurance Regulatory Authority of its jurisdiction of domicile and in accordance with the laws of such jurisdiction, together with all exhibits, schedules, certificates and actuarial opinions required to be filed or delivered therewith.

"Strategic Investment" means (i) Investments by the Borrower or any Subsidiary in less than 50% of the Equity Interests of a Person and (ii) loans or advances by the Borrower or any Subsidiary to a Person, in the case of each of (i) and (ii), that is engaged in a business of the type in which the Borrower and its Subsidiaries are permitted to engage under Section 6.10 and with which the Borrower or such Subsidiary has an arms'-length written agreement for the provision by such Person of services, goods or other assets useful in the Borrower's or any Subsidiary's business.

"Structured Securities" means, collectively, the following: (a) the Existing Structured Securities; and (b) (i) any other Junior Subordinated Debentures, (ii) the common securities issued by TOPS Trusts to the Borrower in connection with such other Junior Subordinated Debentures, (iii) the trust preferred securities issued by TOPS Trusts in connection with such other Junior Subordinated Debentures and having substantially similar terms as such Junior Subordinated Debentures and (iv) any guarantee executed and delivered by the Borrower with respect to such trust preferred securities, in each case with respect to the foregoing in clause (b) above, all reasonably acceptable to the Administrative Agent and as the same may be further amended, amended and restated, supplemented or otherwise modified from time to time in accordance with Section 6.13.

"Subordinated Indebtedness" means any Indebtedness of the Borrower or any Subsidiary the payment of which is subordinated to payment of the obligations under the Loan Documents.

"subsidiary" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, Controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" means any subsidiary of the Borrower.

"Substantial Portion" means, with respect to the assets of the Borrower and its Subsidiaries, assets which (a) represent more than 10% of the consolidated assets of the Borrower and its Subsidiaries as reflected in the consolidated financial statements of the Borrower and its Subsidiaries as of December 31, 2011, or (b) are responsible for generating more than 10% of the consolidated net revenues or of the Consolidated Net Income of the Borrower and its Subsidiaries as reflected in the financial statements referred to in clause (a) above.

"Swap Agreement" means any transaction (including an agreement with respect thereto) that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange

transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option, derivative transaction or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

"Swap Obligations" means obligations under or with respect to Swap Agreements.

"Taxes" means any present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"Test Period" means, at any time, the four consecutive fiscal quarters of the Borrower then last ended.

"Threshold Amount" means $10,000,000.

"TIC" means Technology Insurance Company, Inc., a New Hampshire corporation.

"TOPS Trust" means a trust sponsored by the Borrower created for the sole purpose of issuing its trust preferred and common securities in connection with the issuance of Junior Subordinated Debentures and which is not part of the Borrower's consolidated group of entities in accordance with GAAP.

"Transactions" means the execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents, the borrowing of Loans and other credit extensions, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

"Type", when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

"U.S. Person" means a "United States person" within the meaning of Section 7701(a)(30) of the Code.

"U.S. Regulated Insurance Company" means a Regulated Insurance Company organized under the laws of a jurisdiction within the United States.

"U.S. Tax Certificate" has the meaning assigned to such term in Section 2.17(f)(ii)(D)(2).

"Voting Stock" means, with respect to any Person, any class or classes of Equity Interests pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the Board of Directors of such Person.

"Wesco" means Wesco Insurance Company, a Delaware corporation.

"Wholly Owned Subsidiary" means, with respect to any Person, any corporation, partnership, limited liability company or other entity of which all of the Equity Interests (other than, in the case of a corporation, directors' qualifying shares or nominee shares required under applicable law) are directly or indirectly owned or controlled by such Person and/or one or more Wholly Owned Subsidiaries

of such Person. Unless the context clearly requires otherwise, all references to any Wholly Owned Subsidiary shall mean a Wholly Owned Subsidiary of the Borrower.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

"Withholding Agent" means the Borrower and the Administrative Agent.

SECTION 1.02 Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a "Revolving Loan") or by Type (e.g., a "Eurodollar Loan") or by Class and Type (e.g., a "Eurodollar Revolving Loan"). Borrowings also may be classified and referred to by Class (e.g., a "Revolving Borrowing") or by Type (e.g., a "Eurodollar Borrowing") or by Class and Type (e.g., a "Eurodollar Revolving Borrowing").

SECTION 1.03 Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". The word "law" shall be construed as referring to all statutes, rules, regulations, codes and other laws (including official rulings and interpretations thereunder having the force of law or with which affected Persons customarily comply), and all judgments, orders and decrees, of all Governmental Authorities. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, restated, supplemented or otherwise modified (subject to any restrictions on such amendments, restatements, supplements or modifications set forth herein), (b) any definition of or reference to any statute, rule or regulation shall be construed as referring thereto as from time to time amended, supplemented or otherwise modified (including by succession of comparable successor laws), (c) any reference herein to any Person shall be construed to include such Person's successors and assigns (subject to any restrictions on assignment set forth herein) and, in the case of any Governmental Authority, any other Governmental Authority that shall have succeeded to any or all functions thereof, (d) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (e) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (f) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04 Accounting Terms; GAAP; SAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP or SAP, as the case may be, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or SAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or SAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP or SAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith. Notwithstanding any other provision contained herein, all terms of an accounting or financial nature used herein shall be construed, and all computations of amounts and ratios

referred to herein shall be made (i) without giving effect to any election under Accounting Standards Codification 825-10-25 (or any other Accounting Standards Codification or Financial Accounting Standard having a similar result or effect) to value any Indebtedness or other liabilities of the Borrower or any Subsidiary at "fair value", as defined therein and (ii) without giving effect to any treatment of Indebtedness in respect of convertible debt instruments under Accounting Standards Codification 470-20 (or any other Accounting Standards Codification or Financial Accounting Standard having a similar result or effect) to value any such Indebtedness in a reduced or bifurcated manner as described therein, and such Indebtedness shall at all times be valued at the full stated principal amount thereof.

SECTION 1.05 Status of Obligations. In the event that the Borrower shall at any time issue or have outstanding any Subordinated Indebtedness, the Borrower shall take all such actions as shall be necessary to cause the Obligations to constitute senior indebtedness (however denominated) in respect of such Subordinated Indebtedness and to enable the Administrative Agent and the Lenders to have and exercise any payment blockage or other remedies available or potentially available to holders of senior indebtedness under the terms of such Subordinated Indebtedness. Without limiting the foregoing, the Obligations are hereby designated as "senior indebtedness" and as "designated senior indebtedness" and words of similar import under and in respect of any indenture or other agreement or instrument under which such Subordinated Indebtedness is outstanding and are further given all such other designations as shall be required under the terms of any such Subordinated Indebtedness in order that the Lenders may have and exercise any payment blockage or other remedies available or potentially available to holders of senior indebtedness under the terms of such Subordinated Indebtedness.

ARTICLE II

The Credits

SECTION 2.01 Commitments. Subject to the terms and conditions set forth herein, each Lender agrees to make Revolving Loans to the Borrower in Dollars from time to time during the Availability Period in an aggregate principal amount that will not result in (a) subject to Sections 2.04 and 2.11(b), the Dollar Amount of such Lender's Revolving Credit Exposure exceeding such Lender's Commitment or (b) subject to Sections 2.04 and 2.11(b), the sum of the Dollar Amount of the total Revolving Credit Exposures exceeding the Aggregate Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans.

SECTION 2.02 Loans and Borrowings. (a) Each Revolving Loan shall be made as part of a Borrowing consisting of Revolving Loans made by the Lenders ratably in accordance with their respective Commitments. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.14, each Revolving Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance herewith. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan (and in the case of an Affiliate, the provisions of Sections 2.14, 2.15, 2.16 and 2.17 shall apply to such Affiliate to the same extent as to such Lender); provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurodollar Revolving Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of $100,000 and

not less than $2,500,000. At the time that each ABR Revolving Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of $100,000 and not less than $500,000; provided that an ABR Revolving Borrowing may be in an aggregate amount that is equal to the entire unused balance of the Aggregate Commitment or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.06(e). Borrowings of more than one Type and Class may be outstanding at the same time; provided that there shall not at any time be more than a total of eight (8) Eurodollar Revolving Borrowings outstanding.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

SECTION 2.03 Requests for Revolving Borrowings. To request a Revolving Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three (3) Business Days before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, not later than 11:00 a.m., New York City time, one (1) Business Day before the date of the proposed Borrowing; provided that any such notice of an ABR Revolving Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.06(e) may be given not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

(i) the aggregate amount of the requested Borrowing;

(ii) the date of such Borrowing, which shall be a Business Day;

(iii) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing;

(iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and

(v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.07.

If no election as to the Type of Revolving Borrowing is specified, then the requested Revolving Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Revolving Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

SECTION 2.04 Determination of Dollar Amounts. The Administrative Agent will determine the Dollar Amount of (a) the LC Exposure as of the date of each request for the issuance, amendment, renewal or extension of any Letter of Credit and (b) all outstanding Credit Events on and as of the last Business Day of each calendar quarter and, during the continuation of an Event of Default, on any other Business Day elected by the Administrative Agent in its discretion or upon instruction by the Required Lenders. Each day upon or as of which the Administrative Agent determines Dollar Amounts as described in the preceding clauses (a) and (b) is herein described as a "Computation Date".

SECTION 2.05 Intentionally Omitted.

SECTION 2.06 Letters of Credit. (a) General. Subject to the terms and conditions set forth herein, the Borrower or AII may request the issuance of Letters of Credit denominated in Agreed Currencies for the Borrower's account or for the account of AII, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time during the Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control. The letters of credit identified on Schedule 2.06 (the "Existing Letters of Credit") shall be deemed to be "Letters of Credit" issued on the Effective Date for all purposes of the Loan Documents. Notwithstanding the foregoing or anything else contained in this Agreement to the contrary, no Letter of Credit may be issued to support obligations with respect to syndicates at the Society of Lloyd's.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the Agreed Currency applicable thereto, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) subject to Sections 2.04 and 2.11(b), the Dollar Amount of the LC Exposure shall not exceed the LC Sublimit and (ii) subject to Sections 2.04 and 2.11(b), the sum of the Dollar Amount of the total Revolving Credit Exposures shall not exceed the Aggregate Commitment.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five (5) Business Days prior to the Maturity Date; provided that any Letter of Credit which is issued in the final year prior to the Maturity Date may have an expiry date which is no later than the date which is one year after the Maturity Date if cash collateralized as contemplated by Section 2.06(j) below (each such Letter of Credit, an "Extended Letter of Credit").

(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section, or of any reimbursement payment required to be refunded to the

Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit (including, for the avoidance of doubt, a Letter of Credit issued for the account of AII), the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent in Dollars the Dollar Amount of such LC Disbursement, calculated as of the date the Issuing Bank made such LC Disbursement (or if the Issuing Bank shall so elect in its sole discretion by notice to the Borrower, in such other Agreed Currency which was paid by the Issuing Bank pursuant to such LC Disbursement in an amount equal to such LC Disbursement) not later than 12:00 noon, New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 12:00 noon, New York City time, on the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that, if such LC Disbursement is not less than the amount of $1,000,000, the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 that such payment be financed with an ABR Revolving Borrowing in the Dollar Amount of such LC Disbursement and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and the Dollar Amount of such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Lender shall pay in Dollars to the Administrative Agent the Dollar Amount of its Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in Section 2.07 with respect to Loans made by such Lender (and Section 2.07 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement. If the Borrower's reimbursement of, or obligation to reimburse, any amounts in any Foreign Currency would subject the Administrative Agent, the Issuing Bank or any Lender to any stamp duty, ad valorem charge or similar tax that would not be payable if such reimbursement were made or required to be made in Dollars, the Borrower shall, at its option, either (x) pay the amount of any such tax requested by the Administrative Agent, the Issuing Bank or the relevant Lender or (y) reimburse each LC Disbursement made in such Foreign Currency in Dollars, in an amount equal to the Equivalent Amount, calculated using the applicable Exchange Rates, on the date such LC Disbursement is made, of such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented

under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Revolving Loans (or in the case such LC Disbursement is denominated in a Foreign Currency, at the Overnight Foreign Currency Rate for such Agreed Currency plus the then effective Applicable Rate with respect to Eurodollar Revolving Loans); provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.13(c) shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of

the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.12(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit then outstanding and issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If (x) any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Lenders with LC Exposure representing greater than 50% of the total LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph, or (y) the Borrower requests the issuance of an Extended Letter of Credit, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders (the "LC Collateral Account"), an amount in cash equal to 105% of the Dollar Amount of the LC Exposure in respect of such Extended Letter of Credit (in the case of the foregoing clause (y)) or in the aggregate (in the case of the foregoing clause (x) as of such date plus any accrued and unpaid interest thereon); provided that the obligation to deposit such cash collateral shall (1) in the case of an Extended Letter of Credit, be required by no later than the date of issuance, renewal or extension of such Extended Letter of Credit and (2) become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Article VII. For the purposes of this paragraph, the Foreign Currency LC Exposure shall be calculated using the applicable Exchange Rate on the date notice demanding cash collateralization is delivered to the Borrower. The Borrower also shall deposit cash collateral pursuant to this paragraph as and to the extent required by Section 2.11(b). Such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the Obligations. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Lenders with LC Exposure representing greater than 50% of the total LC Exposure), be applied to satisfy other Obligations. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three (3) Business Days after all Events of Default have been cured or waived.

SECTION 2.07 Funding of Borrowings. (a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 12:00 noon, New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders in an amount equal to such Lender's Applicable Percentage. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in New York City or Chicago and designated by the Borrower in the applicable Borrowing

Request; provided that ABR Revolving Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.06(e) shall be remitted by the Administrative Agent to the Issuing Bank.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.08 Interest Elections. (a) Each Revolving Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Revolving Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Revolving Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Revolving Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower. Notwithstanding any contrary provision herein, this Section shall not be construed to permit the Borrower to elect an Interest Period for Eurodollar Loans that does not comply with Section 2.02(d).

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which Interest Period shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Revolving Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Revolving Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Revolving Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

SECTION 2.09 Termination and Reduction of Commitments. (a) Unless previously terminated, the Commitments shall terminate on the Maturity Date.

(b) The Borrower may at any time terminate, or from time to time reduce, the Commitments; provided that (i) each reduction of the Commitments shall be in an amount that is an integral multiple of $1,000,000 and not less than $5,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.11, the sum of the Dollar Amount of the Revolving Credit Exposures would exceed the Aggregate Commitment.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) of this Section at least three (3) Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments shall be permanent. Each reduction of the Commitments shall be made ratably among the Lenders in accordance with their respective Commitments.

SECTION 2.10 Repayment of Loans; Evidence of Debt. (a) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Revolving Loan on the Maturity Date.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.11 Prepayment of Loans.

(a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to prior notice in accordance with the provisions of this Section 2.11. The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Revolving Borrowing, not later than 11:00 a.m., New York City time, three (3) Business Days before the date of prepayment or (ii) in the case of prepayment of an ABR Revolving Borrowing, not later than 11:00 a.m., New York City time, one (1) Business Day before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid; provided that, if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.09, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.09. Promptly following receipt of any such notice relating to a Revolving Borrowing, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Revolving Borrowing shall be in an amount that would be permitted in the case of an advance of a Revolving Borrowing of the same Type as provided in Section 2.02. Each prepayment of a Revolving Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by (i) accrued interest to the extent required by Section 2.13 and (ii) break funding payments pursuant to Section 2.16.

(b) If at any time, (i) other than as a result of fluctuations in currency exchange rates, the sum of the aggregate principal Dollar Amount of all of the Revolving Credit Exposures (calculated, with respect to the Foreign Currency LC Exposure, as of the most recent Computation Date) exceeds the Aggregate Commitment or (ii) solely as a result of fluctuations in currency exchange rates, (A) the sum of the aggregate principal Dollar Amount of all of the outstanding LC Exposure exceeds 105% of the LC Sublimit or (B) the sum of the aggregate principal Dollar Amount of all of the Revolving Credit Exposures (so calculated) exceeds 102.5% of the Aggregate Commitment, the Borrower shall in each case immediately repay Borrowings or cash collateralize LC Exposure in an account with the Administrative Agent pursuant to Section 2.06(j), as applicable, in an aggregate principal amount sufficient to cause (x) the LC Exposure to be less than or equal to the LC Sublimit and (y) the aggregate Dollar Amount of

all Revolving Credit Exposures (so calculated) to be less than or equal to the Aggregate Commitment, as applicable.

SECTION 2.12 Fees. (a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commitment fee, which shall accrue at the Applicable Rate on the daily amount of the Available Revolving Commitment of such Lender during the period from and including the Effective Date to but excluding the date on which such Commitment terminates; provided that, if such Lender continues to have any Revolving Credit Exposure after its Commitment terminates, then such commitment fee shall continue to accrue on the daily amount of such Lender's Revolving Credit Exposure from and including the date on which its Commitment terminates to but excluding the date on which such Lender ceases to have any Revolving Credit Exposure. Accrued commitment fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the date hereof. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the same Applicable Rate used to determine the interest rate applicable to Eurodollar Revolving Loans on the average daily Dollar Amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender's Commitment terminates and the date on which such Lender ceases to have any LC Exposure and (ii) to the Issuing Bank for its own account a fronting fee, which shall accrue at the rate of 0.125% per annum on the average daily Dollar Amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) attributable to Letters of Credit issued by the Issuing Bank during the period from and including the Effective Date to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any LC Exposure, as well as the Issuing Bank's standard fees and commissions with respect to the issuance, amendment, cancellation, negotiation, transfer, presentment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Unless otherwise specified above, participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on the third (3rd) Business Day following such last day, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Commitments terminate and any such fees accruing after the date on which the Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within ten (10) days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) All fees payable hereunder shall be paid on the dates due, in Dollars and immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, in the case of commitment fees and participation fees, to the Lenders. Fees paid shall not be refundable under any circumstances.

SECTION 2.13 Interest. (a) The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Loans as provided in paragraph (a) of this Section.

(d) Accrued interest on each Revolving Loan shall be payable in arrears on each Interest Payment Date for such Revolving Loan and upon termination of the Commitments; provided that (i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Revolving Loan prior to the end of the Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurodollar Revolving Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.14 Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Loans (or its Loan) included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Revolving Borrowing to, or continuation of any Revolving Borrowing as, a Eurodollar Borrowing shall be ineffective and any such Eurodollar Borrowing shall be repaid on the last day of the then current Interest Period applicable thereto and (ii) if any Borrowing Request requests a Eurodollar Revolving Borrowing, such Borrowing shall be made as an ABR Borrowing.

SECTION 2.15 Increased Costs. (a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or the Issuing Bank;

(ii) impose on any Lender or the Issuing Bank or the London interbank market any other condition, cost or expense affecting this Agreement or Loans made by such Lender or any Letter of Credit or participation therein; or

(iii) subject any Recipient to any Taxes (other than (A) Indemnified Taxes, (B) Taxes described in clauses (b) through (d) of the definition of Excluded Taxes and (C) Connection Income Taxes) on its loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Loan or of maintaining its obligation to make any such Loan or to increase the cost to such Lender or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder, whether of principal, interest or otherwise, then the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered as reasonably determined by such Lender or the Issuing Bank (which determination shall be made in good faith (and not on an arbitrary or capricious basis) and consistent with similarly situated customers of the applicable Lender or the Issuing Bank under agreements having provisions similar to this Section 2.15 after consideration of such factors as such Lender or the Issuing Bank then reasonably determines to be relevant).

(b) If any Lender or the Issuing Bank determines that any Change in Law regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy and liquidity), then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered as reasonably determined by such Lender or the Issuing Bank (which determination shall be made in good faith (and not on an arbitrary or capricious basis) and consistent with similarly situated customers of the applicable Lender or the Issuing Bank under agreements having provisions similar to this Section 2.15 after consideration of such factors as such Lender or the Issuing Bank then reasonably determines to be relevant).

(c) A certificate of a Lender or the Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or the Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(d) Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 270 days prior to the date that such Lender or the Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Bank's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 270-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.16 Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default or as a result of any prepayment pursuant to Section 2.11), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Eurodollar Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.11 and is revoked in accordance therewith) or (d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.19, then, in any such event, the Borrower shall compensate each Lender for the loss and any reasonable cost and expense attributable to such event. Such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for deposits in Dollars of a comparable amount and period from other banks in the eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within ten (10) days after receipt thereof.

SECTION 2.17 Taxes. (a) Withholding of Taxes; Gross-Up. Each payment by the Borrower under any Loan Document shall be made without withholding for any Taxes, unless such withholding is required by any law. If any Withholding Agent determines, in its sole discretion exercised in good faith, that it is so required to withhold Taxes, then such Withholding Agent may so withhold and shall timely pay the full amount of withheld Taxes to the relevant Governmental Authority in accordance with applicable law. If such Taxes are Indemnified Taxes, then the amount payable by the Borrower shall be increased as necessary so that, net of such withholding (including such withholding applicable to additional amounts payable under this Section), the applicable Recipient receives the amount it would have received had no such withholding been made.

(b) Payment of Other Taxes by the Borrower. The Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(d) Indemnification by the Borrower. The Borrower shall indemnify each Recipient for any Indemnified Taxes that are paid or payable by such Recipient in connection with any Loan Document (including amounts paid or payable under this Section 2.17(d)) and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. The indemnity under this Section 2.17(d) shall be paid within ten (10) days after the Recipient delivers to the Borrower a certificate stating the amount of any Indemnified Taxes so paid or payable by such Recipient and describing the basis for the indemnification claim. Such certificate shall be conclusive of the amount so paid or payable absent manifest error. Such Recipient shall deliver a copy of such certificate to the Administrative Agent.

(e) Indemnification by the Lenders. Each Lender shall severally indemnify the Administrative Agent, within ten (10) days after demand therefor, for (i) any Indemnified Taxes attributable to such Lender (but only to the extent that the Borrower has not already indemnified the Administrative Agent for such Indemnified Taxes and without limiting the obligation of the Borrower to do so), (ii) any Taxes attributable to such Lender's failure to comply with the provisions of Section 9.04(c) relating to the maintenance of a Participant Register and (iii) any Excluded Taxes attributable to such Lender, in each case, that are payable or paid by the Administrative Agent in connection with any Loan Document, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by the Administrative Agent shall be conclusive absent manifest error. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender under any Loan Document or otherwise payable by the Administrative Agent to the Lender from any other source against any amount due to the Administrative Agent under this paragraph (e).

(f) Status of Lenders. (i) Any Lender that is entitled to an exemption from, or reduction of, any applicable withholding Tax with respect to any payments under any Loan Document shall deliver to the Borrower and the Administrative Agent, at the time or times reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation reasonably requested by the Borrower or the Administrative Agent as will permit such payments to be made without, or at a reduced rate of, withholding. In addition, any Lender, if requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender is subject to any withholding (including backup withholding) or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation (other than such documentation set forth in Section 2.17(f)(ii)(A) through (E) below) shall not be required if in the Lender's judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense (or, in the case of a Change in Law, any incremental material unreimbursed cost or expense) or would materially prejudice the legal or commercial position of such Lender. Upon the reasonable request of the Borrower or the Administrative Agent, any Lender shall update any form or certification previously delivered pursuant to this Section 2.17(f). If any form or certification previously delivered pursuant to this Section expires or becomes obsolete or inaccurate in any respect with respect to a Lender, such Lender shall promptly (and in any event within ten (10) days after such expiration, obsolescence or inaccuracy) notify the Borrower and the Administrative Agent in writing of such expiration, obsolescence or inaccuracy and update the form or certification if it is legally eligible to do so.

(ii) Without limiting the generality of the foregoing, if the Borrower is a U.S. Person, any Lender with respect to the Borrower shall, if it is legally eligible to do so, deliver to the Borrower and the Administrative Agent (in such number of copies reasonably requested by the

Borrower and the Administrative Agent) on or prior to the date on which such Lender becomes a party hereto, duly completed and executed copies of whichever of the following is applicable:

(A) in the case of a Lender that is a U.S. Person, IRS Form W-9 certifying that such Lender is exempt from U.S. Federal backup withholding tax;

(B) in the case of a Non-U.S. Lender claiming the benefits of an income tax treaty to which the United States is a party (1) with respect to payments of interest under any Loan Document, IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. Federal withholding Tax pursuant to the "interest" article of such tax treaty and (2) with respect to any other applicable payments under any Loan Document, IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. Federal withholding Tax pursuant to the "business profits" or "other income" article of such tax treaty;

(C) in the case of a Non-U.S. Lender for whom payments under any Loan Document constitute income that is effectively connected with such Lender's conduct of a trade or business in the United States, IRS Form W-8ECI;

(D) in the case of a Non-U.S. Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code both (1) IRS Form W-8BEN and (2) a certificate substantially in the form of Exhibit F (a "U.S. Tax Certificate") to the effect that such Lender is not (a) a "bank" within the meaning of Section 881(c)(3)(A) of the Code, (b) a "10 percent shareholder" of the Borrower within the meaning of Section 881(c)(3)(B) of the Code, (c) a "controlled foreign corporation" described in Section 881(c)(3)(C) of the Code and (d) conducting a trade or business in the United States with which the relevant interest payments are effectively connected;

(E) in the case of a Non-U.S. Lender that is not the beneficial owner of payments made under this Agreement (including a partnership or a participating Lender) (1) an IRS Form W-8IMY on behalf of itself and (2) the relevant forms prescribed in clauses (A), (B), (C), (D) and (F) of this paragraph (f)(ii) that would be required of each such beneficial owner or partner of such partnership if such beneficial owner or partner were a Lender; provided, however, that if the Lender is a partnership and one or more of its partners are claiming the exemption for portfolio interest under Section 881(c) of the Code, such Lender may provide a U.S. Tax Certificate on behalf of such partners; or

(F) any other form prescribed by law as a basis for claiming exemption from, or a reduction of, U.S. Federal withholding Tax together with such supplementary documentation necessary to enable the Borrower or the Administrative Agent to determine the amount of Tax (if any) required by law to be withheld.

(iii) If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Withholding Agent, at the time or times prescribed by law and at such time or times reasonably requested by the Withholding Agent, such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Withholding Agent as may be necessary for the Withholding Agent to comply with its obligations under FATCA, to determine that such Lender has or has not complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such

payment. Solely for purposes of this Section 2.17(f)(iii), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(g) Treatment of Certain Refunds. If any party determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Section 2.17 (including additional amounts paid pursuant to this Section 2.17), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under this Section with respect to the Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses (including any Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid to such indemnified party pursuant to the previous sentence (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this Section 2.17(g), in no event will any indemnified party be required to pay any amount to any indemnifying party pursuant to this Section 2.17(g) if such payment would place such indemnified party in a less favorable position (on a net after-Tax basis) than such indemnified party would have been in if the indemnification payments or additional amounts giving rise to such refund had never been paid. This Section 2.17(g) shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes which it deems confidential) to the indemnifying party or any other Person.

(h) Issuing Bank. For purposes of Section 2.17(e) and (f), the term "Lender" includes the Issuing Bank.

SECTION 2.18 Payments Generally; Pro Rata Treatment; Sharing of Set-offs.

(a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.15, 2.16 or 2.17, or otherwise) prior to 12:00 noon, New York City time on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 10 South Dearborn Street, 7th Floor, Chicago, Illinois 60603, except payments to be made directly to the Issuing Bank as expressly provided herein and except that payments pursuant to Sections 2.15, 2.16, 2.17 and 9.03 shall be made directly to the Persons entitled thereto, pursuant to instructions provided to the Borrower by such Person. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. Except as otherwise expressly set forth in Section 2.06, payments hereunder shall be made when due in Dollars in an amount equal to the Dollar Amount (as of the date of repayment) of such payment due.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) At the election of the Administrative Agent, all payments of principal, interest, LC Disbursements, fees, premiums, reimbursable expenses (including, without limitation, all reimbursement for fees and expenses pursuant to Section 9.03), and other sums payable under the Loan Documents, may be paid from the proceeds of Borrowings made hereunder whether made following a request by the Borrower pursuant to Section 2.03 or a deemed request as provided in this Section or may be deducted from any deposit account of the Borrower maintained with the Administrative Agent. The Borrower hereby irrevocably authorizes (i) the Administrative Agent to make a Borrowing for the purpose of paying each payment of principal, interest and fees as it becomes due hereunder or any other amount due under the Loan Documents and agrees that all such amounts charged shall constitute Loans and that all such Borrowings shall be deemed to have been requested pursuant to Section 2.03 and (ii) the Administrative Agent to charge any deposit account of the Borrower maintained with the Administrative Agent for each payment of principal, interest and fees as it becomes due hereunder or any other amount due under the Loan Documents.

(d) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Revolving Loans or participations in LC Disbursements resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Revolving Loans and participations in LC Disbursements and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Revolving Loans and participations in LC Disbursements of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Revolving Loans and participations in LC Disbursements; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(e) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(f) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.06(d) or (e), 2.07(b), 2.18(e) or 9.03(c), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), (i) apply any amounts thereafter received by the Administrative Agent for the account of such Lender and for the benefit of the Administrative Agent or

the Issuing Bank to satisfy such Lender's obligations to it under such Section until all such unsatisfied obligations are fully paid and/or (ii) hold any such amounts in a segregated account as cash collateral for, and application to, any future funding obligations of such Lender under any such Section; in the case of each of clauses (i) and (ii) above, in any order as determined by the Administrative Agent in its discretion.

SECTION 2.19 Mitigation Obligations; Replacement of Lenders. (a) If any Lender requests compensation under Section 2.15, or the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.15 or 2.17, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If (i) any Lender requests compensation under Section 2.15, (ii) the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17 or (iii) any Lender becomes a Defaulting Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under the Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and if a Commitment is being assigned, the Issuing Bank), which consent shall not unreasonably be withheld or delayed, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

SECTION 2.20 Expansion Option. The Borrower may from time to time elect to increase the Commitments or enter into one or more tranches of term loans (each an "Incremental Term Loan"), in each case in minimum increments of $10,000,000 so long as, after giving effect thereto, the aggregate amount of such increases and all such Incremental Term Loans does not exceed $100,000,000. The Borrower may arrange for any such increase or tranche to be provided by one or more Lenders (each Lender so agreeing to an increase in its Commitment, or to participate in such Incremental Term Loans, an "Increasing Lender"), or by one or more new banks, financial institutions or other entities (each such new bank, financial institution or other entity, an "Augmenting Lender"), to increase their existing Commitments, or to participate in such Incremental Term Loans, or extend Commitments, as the case may be; provided that (i) each Augmenting Lender, shall be subject to the approval of the Borrower and the Administrative Agent and (ii) (x) in the case of an Increasing Lender, the Borrower and such Increasing Lender execute an agreement substantially in the form of Exhibit C hereto, and (y) in the case of an Augmenting Lender, the Borrower and such Augmenting Lender execute an agreement substantially in the form of Exhibit D hereto. No consent of any Lender (other than the Lenders participating in the increase or any Incremental Term Loan) shall be required for any increase in Commitments or Incremental Term Loan pursuant to this Section 2.20. Increases and new Commitments and Incremental

Term Loans created pursuant to this Section 2.20 shall become effective on the date agreed by the Borrower, the Administrative Agent and the relevant Increasing Lenders or Augmenting Lenders, and the Administrative Agent shall notify each Lender thereof. Notwithstanding the foregoing, no increase in the Commitments (or in the Commitment of any Lender) or tranche of Incremental Term Loans shall become effective under this paragraph unless, (i) on the proposed date of the effectiveness of such increase or Incremental Term Loans, (A) the conditions set forth in paragraphs (a) and (b) of Section 4.02 shall be satisfied or waived by the Required Lenders and the Administrative Agent shall have received a certificate to that effect dated such date and executed by a Financial Officer of the Borrower and (B) the Borrower shall be in compliance (on a Pro Forma Basis reasonably acceptable to the Administrative Agent) with the covenants contained in Section 6.12 and (ii) the Administrative Agent shall have received documents consistent with those delivered on the Effective Date as to the corporate power and authority of the Borrower to borrow hereunder after giving effect to such increase. On the effective date of any increase in the Commitments or any Incremental Term Loans being made, (i) each relevant Increasing Lender and Augmenting Lender shall make available to the Administrative Agent such amounts in immediately available funds as the Administrative Agent shall determine, for the benefit of the other Lenders, as being required in order to cause, after giving effect to such increase and the use of such amounts to make payments to such other Lenders, each Lender's portion of the outstanding Revolving Loans of all the Lenders to equal its Applicable Percentage of such outstanding Revolving Loans, and (ii) except in the case of any Incremental Term Loans, the Borrower shall be deemed to have repaid and reborrowed all outstanding Revolving Loans as of the date of any increase in the Commitments (with such reborrowing to consist of the Types of Revolving Loans, with related Interest Periods if applicable, specified in a notice delivered by the Borrower, in accordance with the requirements of Section 2.03). The deemed payments made pursuant to clause (ii) of the immediately preceding sentence shall be accompanied by payment of all accrued interest on the amount prepaid and, in respect of each Eurodollar Loan, shall be subject to indemnification by the Borrower pursuant to the provisions of Section 2.16 if the deemed payment occurs other than on the last day of the related Interest Periods. The Incremental Term Loans (a) shall rank pari passu in right of payment with the Revolving Loans, (b) shall not mature earlier than the Maturity Date (but may have amortization prior to such date) and (c) shall be treated substantially the same as (and in any event no more favorably than) the Revolving Loans; provided that (i) the terms and conditions applicable to any tranche of Incremental Term Loans maturing after the Maturity Date may provide for material additional or different financial or other covenants or prepayment requirements applicable only during periods after the Maturity Date and (ii) the Incremental Term Loans may be priced differently than the Revolving Loans. Incremental Term Loans may be made hereunder pursuant to an amendment or restatement (an "Incremental Term Loan Amendment") of this Agreement and, as appropriate, the other Loan Documents, executed by the Borrower, each Increasing Lender participating in such tranche, each Augmenting Lender participating in such tranche, if any, and the Administrative Agent. The Incremental Term Loan Amendment may, without the consent of any other Lenders, effect such amendments to this Agreement and the other Loan Documents as may be necessary or appropriate, in the reasonable opinion of the Administrative Agent, to effect the provisions of this Section 2.20. Nothing contained in this Section 2.20 shall constitute, or otherwise be deemed to be, a commitment on the part of any Lender to increase its Commitment hereunder, or provide Incremental Term Loans, at any time.

SECTION 2.21 Defaulting Lenders. Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(a) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.12(a);

(b) the Commitment and Revolving Credit Exposure of such Defaulting Lender shall not be included in determining whether the Required Lenders have taken or may take any action hereunder (including any consent to any amendment, waiver or other modification pursuant to Section 9.02); provided, that this clause (b) shall not apply to the vote of a Defaulting Lender in the case of an amendment, waiver or other modification requiring the consent of such Lender or each Lender affected thereby;

(c) if any LC Exposure exists at the time such Lender becomes a Defaulting Lender then:

(i) all or any part of the LC Exposure of such Defaulting Lender shall be reallocated among the non-Defaulting Lenders in accordance with their respective Applicable Percentages but only to the extent (A) the sum of all non-Defaulting Lenders' Revolving Credit Exposures plus such Defaulting Lender's LC Exposure does not exceed the total of all non-Defaulting Lenders' Commitments and (B) no Default has occurred and is continuing;

(ii) if the reallocation described in clause (i) above cannot, or can only partially, be effected, the Borrower shall within one (1) Business Day following notice by the Administrative Agent cash collateralize for the benefit of the Issuing Bank only the Borrower's obligations corresponding to such Defaulting Lender's LC Exposure (after giving effect to any partial reallocation pursuant to clause (i) above) in accordance with the procedures set forth in Section 2.06(j) for so long as such LC Exposure is outstanding;

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's LC Exposure pursuant to clause (ii) above, the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.12(b) with respect to such Defaulting Lender's LC Exposure during the period such Defaulting Lender's LC Exposure is cash collateralized;

(iv) if the LC Exposure of the non-Defaulting Lenders is reallocated pursuant to clause (i) above, then the fees payable to the Lenders pursuant to Sections 2.12(a) and Section 2.12(b) shall be adjusted in accordance with such non-Defaulting Lenders' Applicable Percentages; and

(v) if all or any portion of such Defaulting Lender's LC Exposure is neither reallocated nor cash collateralized pursuant to clause (i) or (ii) above, then, without prejudice to any rights or remedies of the Issuing Bank or any other Lender hereunder, all letter of credit fees payable under Section 2.12(b) with respect to such Defaulting Lender's LC Exposure shall be payable to the Issuing Bank until and to the extent that such LC Exposure is reallocated and/or cash collateralized; and

(d) so long as such Lender is a Defaulting Lender, the Issuing Bank shall not be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure and the Defaulting Lender's then outstanding LC Exposure will be 100% covered by the Commitments of the non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.21(c), and participating interests in any newly issued or increased Letter of Credit shall be allocated among non-Defaulting Lenders in a manner consistent with Section 2.21(c)(i) (and such Defaulting Lender shall not participate therein).

If (i) a Bankruptcy Event with respect to a Parent of any Lender shall occur following the date hereof and for so long as such event shall continue or (ii) the Issuing Bank has a good faith belief that any Lender has defaulted in fulfilling its obligations under one or more other agreements in which

such Lender commits to extend credit, the Issuing Bank shall not be required to issue, amend or increase any Letter of Credit, unless the Issuing Bank shall have entered into arrangements with the Borrower or such Lender, satisfactory to the Issuing Bank to defease any risk to it in respect of such Lender hereunder.

In the event that the Administrative Agent, the Borrower and the Issuing Bank each agrees that a Defaulting Lender has adequately remedied all matters that caused such Lender to be a Defaulting Lender, then the LC Exposure of the Lenders shall be readjusted to reflect the inclusion of such Lender's Commitment and on such date such Lender shall purchase at par such of the Loans of the other Lenders as the Administrative Agent shall determine may be necessary in order for such Lender to hold such Loans in accordance with its Applicable Percentage.

ARTICLE III

Representations and Warranties

The Borrower represents and warrants to the Lenders that:

SECTION 3.01 Organization; Powers. Each of the Borrower and its Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

SECTION 3.02 Authorization; Enforceability. The Transactions are within the Borrower's corporate powers and have been duly authorized by all necessary corporate and, if required, stockholder action. This Agreement and the other Loan Documents have been duly executed and delivered by the Borrower and constitute legal, valid and binding obligations of the Borrower, enforceable against it in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03 Governmental Approvals; No Conflicts. The Transactions (a) do not require, on the part of the Borrower, any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate any applicable law or regulation or the Organizational Documents of the Borrower or any of its Subsidiaries or any order of any Governmental Authority having applicability to the Borrower or any of its Subsidiaries, (c) will not violate or result in a default under any indenture, material agreement or other material instrument binding upon the Borrower or any of its Subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by the Borrower or any of its Subsidiaries, and (d) will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries.

SECTION 3.04 Financial Condition; No Material Adverse Change. (a) The Borrower has heretofore furnished to the Lenders its consolidated balance sheet and statements of income, stockholders equity and cash flows (i) as of and for the fiscal year ended December 31, 2011, reported on by BDO USA, LLP, independent public accountants, and (ii) as of and for the fiscal quarter and the portion of the fiscal year ended March 31, 2012 (other than a statement of stockholders equity), certified by its chief financial officer. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Borrower and its consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP.

(b) The Borrower has heretofore furnished to the Lenders copies of the annual Statutory Statements of each U.S. Regulated Insurance Company as of December 31, 2011 and 2010, and for the fiscal years then ended, each as filed with the Applicable Insurance Regulatory Authority (collectively, the "Historical Statutory Statements"); provided, that the Statutory Statement of a U.S. Regulated Insurance Company shall not be required to be delivered for any year that such U.S. Regulated Insurance Company was not a Subsidiary of the Borrower. The Historical Statutory Statements (including, without limitation, the provisions made therein for investments and the valuation thereof, reserves, policy and contract claims and statutory liabilities) have been prepared in accordance with SAP (except as may be reflected in the notes thereto and subject, with respect to the relevant quarterly statements, to the absence of notes required by SAP and to normal year-end adjustments), were in compliance with the applicable Requirements of Law when filed and present fairly in all material respects the financial condition of the respective U.S. Regulated Insurance Companies covered thereby as of the respective dates thereof and the results of operations, changes in capital and surplus and cash flow of the respective Regulated Insurance Companies covered thereby for the respective periods then ended.

(c) Except as set forth in the financial statements referred to in Section 3.04(a), there are no liabilities of the Borrower or of any of its Subsidiaries of any kind, whether accrued, contingent, absolute, determined, determinable or otherwise, which could reasonably be expected to result in a Material Adverse Effect.

(d) Since December 31, 2011, there has been no event, change, circumstance or occurrence that, individually or in the aggregate, has had or could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.05 Properties. (a) Each of the Borrower and its Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business, except for minor defects in title that are not reasonably expected to have a Material Adverse Effect.

(b) Each of the Borrower and its Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and, to the knowledge of the Borrower, the use thereof by the Borrower and its Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.06 Litigation and Environmental Matters. (a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any of its Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect or (ii) that question the validity or enforceability of the Agreement or any of the other Loan Documents, or of any action to be taken by the Borrower pursuant to this Agreement or any of the other Loan Documents.

(b) Except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither the Borrower nor any of its Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

SECTION 3.07 Compliance with Laws and Agreements. Each of the Borrower and its Subsidiaries is in compliance with all Requirements of Law and orders of any Governmental Authority, in

each case, applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

SECTION 3.08 Investment Company Status. The Borrower is not an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940.

SECTION 3.09 Taxes. Each of the Borrower and its Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect. As of the Effective Date, there are no tax sharing agreements or similar arrangements (including tax indemnity arrangements) with respect to or involving the Borrower or any of its Subsidiaries, other than tax sharing agreements between the Borrower and its Subsidiaries.

SECTION 3.10 ERISA.

(a) No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. Except as, either individually or in the aggregate, has not had, and could not reasonably be expected to have, a Material Adverse Effect, the Borrower and its Subsidiaries and their ERISA Affiliates (i) have fulfilled their respective obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and are in compliance with the applicable provisions of ERISA and the Code, and (ii) have not incurred any liability to the PBGC or any Plan or Multiemployer Plan (other than to make contributions in the ordinary course of business).

(b) Except as, either individually or in the aggregate, has not had, and would not reasonably be expected to have, a Material Adverse Effect, (i) each Foreign Pension Plan has been maintained in compliance with its terms and with the requirements of any and all applicable laws, statutes, rules, regulations and orders and has been maintained, where required, in good standing with applicable regulatory authorities, (ii) all contributions required to be made with respect to a Foreign Pension Plan have been timely made, (iii) neither the Borrower nor any of its Subsidiaries has incurred any obligation in connection with the termination of, or withdrawal from, any Foreign Pension Plan and (iv) the present value of the accrued benefit liabilities (whether or not vested) under each Foreign Pension Plan that is required to be funded, determined as of the end of the Borrower's most recently ended fiscal year on the basis of actuarial assumptions, each of which is reasonable, did not exceed the current value of the assets of such Foreign Pension Plan allocable to such benefit liabilities.

SECTION 3.11 Disclosure. The Borrower has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. None of the written information, reports, financial statements, certificates or other information furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation of this Agreement and any other Loan Document or delivered hereunder or thereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein (taken as a whole), in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

SECTION 3.12 Federal Regulations. The Borrower is not engaged nor will it engage, principally or as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulations T, U or X of the Board as now and from time to time hereafter in effect. No part of the proceeds of the Loan hereunder will be used for "purchasing" or "carrying" "margin stock" as so defined or for any purpose which violates, or which would be inconsistent with, the provisions of the Regulations of such Board.

SECTION 3.13 General Insurance. The properties of the Borrower and each of its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Borrower, in such amounts (after giving effect to any self-insurance compatible with the following standards), with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Borrower or such Subsidiary operates.

SECTION 3.14 Seniority.

(a) The Obligations are, and will be, superior and senior in right of payment to the Existing Debentures and any guaranty of the Borrower made by the Borrower in connection with any of the Existing Structured Securities. The Obligations constitute, and are within the definition of, "Senior Indebtedness" (as such term is defined in the Existing Indentures as of the date hereof). The subordination provisions contained in the Existing Debentures, the Existing Indentures, any guaranty of the Borrower made by the Borrower in connection with any of the Existing Structured Securities are, in each case, enforceable against the Borrower and the holders of such Indebtedness.

(b) The Obligations are, and will be, superior and senior in right of payment to any Indebtedness of the Borrower to any of its Subsidiaries.

SECTION 3.15 Subsidiaries. (a) Set forth on Schedule 3.15 is a complete and correct list of (i) all of the Subsidiaries of the Borrower as of the Effective Date, together with, for each such Subsidiary, (A) the jurisdiction of organization of such Subsidiary, (B) each Person holding direct ownership interests in such Subsidiary and (C) percentage ownership of such Subsidiary represented by such ownership interests. Except as set forth on Schedule 3.15, each of the Borrower and its Subsidiaries owns, free and clear of Liens, and has the unencumbered right to vote, all the outstanding ownership interests in each Person shown to be held by it on Schedule 3.15. All Equity Interests of each Subsidiary of the Borrower are duly and validly issued and are fully paid and non-assessable.

(b) As of the Effective Date, there are no restrictions on the Borrower or any of its Subsidiaries which prohibit or otherwise restrict the transfer of cash or other assets from any Subsidiary of the Borrower to the Borrower, other than (i) prohibitions or restrictions existing under or by reason of this Agreement or the other Loan Documents, (ii) prohibitions or restrictions existing under or by reason of applicable Requirements of Law, (iii) prohibitions or restrictions existing under or by reason of the documents evidencing the Permitted Tax Incentive Financing Transactions; and (iv) other prohibitions or restrictions which, either individually or in the aggregate, have not had, or could not reasonably be expected to have, Material Adverse Effect.

SECTION 3.16 Insurance Licenses. Each Regulated Insurance Company holds all licenses (including licenses or certificates of authority from Applicable Insurance Regulatory authorities), permits or authorizations necessary or otherwise required to transact insurance and reinsurance business (collectively, the "Insurance Licenses"). There is (i) no Insurance License that is the subject of a proceeding for suspension, revocation or limitation or any similar proceedings, (ii) no sustainable basis

for such a suspension, revocation or limitation, and (iii) to the knowledge of the Borrower, no such suspension, revocation or limitation threatened by any Applicable Insurance Regulatory Authority, that, in each instance under clauses (i), (ii) and (iii) above and either individually or in the aggregate, has had, or could reasonably be expected to have, a Material Adverse Effect.

SECTION 3.17 Insurance Business. All insurance policies issued by any Regulated Insurance Company are, to the extent required under applicable law, on forms approved by the insurance regulatory authorities of the jurisdictions where issued or have been filed with and not objected to by such authorities within the period for objection, except for those forms with respect to which a failure to obtain such approval or make such a filing without it being objected to, either individually or in the aggregate, has not had, and could not reasonably be expected to have, a Material Adverse Effect.

SECTION 3.18 Use of Proceeds. The proceeds of the Loans will be used only to finance acquisitions permitted under this Agreement, the Permitted Tax Incentive Financing Transactions and the working capital needs, and for general corporate purposes, of the Borrower and its Subsidiaries in the ordinary course of business.

ARTICLE IV

Conditions

SECTION 4.01 Effective Date. The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.02):

(a) The Administrative Agent (or its counsel) shall have received from each party hereto either (A) a counterpart of this Agreement signed on behalf of such party or (B) written evidence satisfactory to the Administrative Agent (which may include telecopy or electronic transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of Thompson Hine LLP, counsel for the Borrower, substantially in the form of Exhibit B, and covering such other matters relating to the Borrower, the Loan Documents or the Transactions as the Administrative Agent shall reasonably request. The Borrower hereby requests such counsel to deliver such opinion.

(c) The Lenders shall have received (i) satisfactory audited consolidated financial statements of the Borrower for the two most recent fiscal years ended prior to the Effective Date as to which such financial statements are available and (ii) satisfactory unaudited interim consolidated financial statements of the Borrower for the quarterly period ended March 31, 2012.

(d) Each domestic Regulated Insurance Company (other than those Regulated Insurance Companies not yet rated by A.M. Best Company) shall have an A.M. Best financial strength rating of at least “A-”.

(e) The Administrative Agent shall have received (i) such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Borrower, the authorization of the Transactions and any other legal matters relating to the Borrower, the Loan Documents or the Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel and as further described in the list of closing documents attached as Exhibit E and (ii) to the extent requested by any of the Lenders, all documentation and other

information required by bank regulatory authorities under applicable "know-your-customer" and anti-money laundering rules and regulations, including the USA PATRIOT Act.

(f) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.02.

(g) The Administrative Agent shall have received evidence satisfactory to it that the Existing Credit Facility shall have been terminated and cancelled and all indebtedness thereunder shall have been fully repaid (except to the extent being so repaid with the initial Revolving Loans) and any and all liens thereunder shall have been terminated.

(h) The Administrative Agent shall have received evidence reasonably satisfactory to it that all governmental and third party approvals necessary or, in the discretion of the Administrative Agent, advisable in connection with the Transactions and the continuing operations of the Borrower and its Subsidiaries (including all insurance and other regulatory compliance) have been obtained and are in full force and effect.

(i) The Administrative Agent and the Lenders shall have received all fees and other amounts due and payable on or prior to the Effective Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding.

SECTION 4.02 Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) The representations and warranties of the Borrower set forth in this Agreement shall be true and correct on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable.

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default or Event of Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section.

ARTICLE V

Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that the Borrower will, and will cause each of its Subsidiaries to:

SECTION 5.01 Financial Statements; Ratings Change and Other Information. Furnish to the Administrative Agent and each Lender:

(a) Annual Financial Statements. As soon as available and in any event within 90 days after the end of each fiscal year of the Borrower (or, if earlier, by the date five (5) Business Days after the Annual Report on Form 10-K of the Borrower for such fiscal year would be required to be filed under the rules and regulations of the SEC), its audited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by BDO USA, LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied.

(b) Quarterly Financial Statements. As soon as available and in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, its consolidated balance sheet and related statements of operations and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes.

(c) Officer's Certificate. Concurrently with any delivery of financial statements under Sections 5.01(a) and 5.01(b), a certificate of a Financial Officer of the Borrower (i) certifying that no Default or Event of Default has occurred, or if any Default or Event of Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Sections 6.14(a), (b), (c), (d) and (e) as at the end of such fiscal year or quarter, as the case may be, (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 3.04(a) and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate, and (iv) certifying that the Regulated Insurance Companies have maintained adequate reserves.

(d) Public Reports. Promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials and documents filed by the Borrower or any Subsidiary with the SEC, or any Governmental Authority succeeding to any or all of the functions of the SEC, or with any national securities exchange, or distributed by the Borrower to its shareholders generally, or to holders of its Indebtedness pursuant to the terms of the documentation governing such Indebtedness (or any trustee, agent or other representative therefor), as the case may be.

(e) Reports to Debt Holders. Promptly after the furnishing thereof, copies of any statement or report furnished to any holder of debt securities of the Borrower or of any of its Subsidiaries pursuant to the terms of any indenture, loan or credit or similar agreement and not otherwise required to be furnished to the Lenders pursuant to any other subsection of this Section 5.01.

(f) Management Letters. Promptly after the receipt thereof by the Borrower, a copy of any "management letter" received by the Borrower from its certified public accountants and the management's responses thereto.

(g) Insurance Reports and Filings.

(i) By no later than the following dates, a copy of each Statutory Statement filed, or required to be filed, by each Regulated Insurance Company:

(A) in the case of annual Statutory Statements, (1) upon the earlier of (x) fifteen (15) days after the regulatory filing date or (y) seventy-five (75) days after the close of each fiscal year of such Regulated Insurance Company, in each case such Statutory Statements being certified by a Financial Officer of such Regulated Insurance Company and prepared in accordance with SAP and (2) no later than each June 15, copies of such Statutory Statements audited and certified by independent certified public accountants of recognized national standing.

(B) in the case of quarterly Statutory Statements, upon the earlier of (x) ten (10) days after the regulatory filing date or (y) fifty (50) days after the close of each of the first three (3) fiscal quarters of each fiscal year of such Regulated Insurance Company, in each case such Statutory Statements being certified by a Financial Officer of such Regulated Insurance Company and prepared in accordance with SAP.

(ii) Promptly following the delivery or receipt, as the case may be, by any Regulated Insurance Company or any of their respective Subsidiaries, copies of (A) each registration, filing or submission made by or on behalf of any Regulated Insurance Company with any Applicable Insurance Regulatory Authority, except for policy form or rate filings, (B) each examination and/or audit report submitted to any Regulated Insurance Company by any Applicable Insurance Regulatory Authority, (C) all information which the Lenders may from time to time reasonably request with respect to the nature or status of any deficiencies or violations reflected in any examination report or other similar report, and (D) each report, order, direction, instruction, approval, authorization, license or other notice which the Borrower or any Regulated Insurance Company may at any time receive from any Applicable Insurance Regulatory Authority, in each of (A) through (D) that is material to the Borrower and its Subsidiaries, taken as a whole, as reasonably determined by the board of directors of the Borrower, a duly authorized committee thereof or a Responsible Officer of the Borrower.

(iii) Promptly following notification thereof from a Governmental Authority, notification of the suspension, limitation, termination or non-renewal of, or the taking of any other materially adverse action in respect of, any material Insurance License.

(h) Rating Information. Promptly after A.M. Best Company shall have announced a downgrade in the financial strength rating of any Regulated Insurance Company, written notice of such rating change.

(i) Other Information. Promptly following any request therefor, such other information or existing documents regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of this Agreement (including any information required under the Act), as the Lenders may reasonably request from time to time.

Documents required to be delivered pursuant to Section 5.01(a), 5.01(b) or 5.01(d) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Borrower posts such documents, or provides a link thereto on the Borrower's website on the Internet; or (ii) on which such documents are posted on the Borrower's behalf on an Internet or intranet website, if any, to which the Administrative Agent has access (whether a commercial, third-party website or whether sponsored by the

Administrative Agent); provided that: (i) the Borrower shall deliver paper copies of such documents to the Administrative Agent, if the Administrative Agent requests, in writing, the Borrower deliver such paper copies, until a written request to cease delivering paper copies is given by the Administrative Agent and (ii) the Borrower shall notify the Administrative Agent (by telecopier or electronic mail) of the posting of any such documents and provide to the Administrative Agent by electronic mail electronic versions (i.e., soft copies) of such documents. Notwithstanding anything contained herein, in every instance the Borrower shall be required to provide paper copies of the certificate of a Financial Officer required by Section 5.01(c) to the Administrative Agent.

SECTION 5.02 Notices of Material Events. Furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of, or, to the knowledge of the Borrower, any threat or notice of intention of any Person to file or commence, any action, suit or proceeding, whether at law or in equity by or before any arbitrator or Governmental Authority (i) against or affecting the Borrower or any Subsidiary thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect or (ii) with respect to any Loan Document;

(c) (x) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding the Threshold Amount; and (y) that any contribution in excess of the Threshold Amount required to be made with respect to a Foreign Pension Plan has not been timely made, or that the Borrower or any Subsidiary of the Borrower may incur any liability in excess of the Threshold Amount pursuant to any Foreign Pension Plan (other than to make contributions in the ordinary course of business).

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03 Existence; Conduct of Business.

(a) Do or cause to be done all things necessary to preserve, renew and maintain in full force and effect its legal existence, except as otherwise expressly permitted under Section 6.03 or Section 6.05 or, in the case of any Subsidiary, where the failure to perform such obligations, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(b) Do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, privileges, franchises, authorizations, patents, copyrights, trademarks and trade names material to the conduct of its business; maintain and operate such business in substantially the manner in which it is presently conducted and operated; and at all times maintain, preserve and protect all property material to the conduct of such business and keep such property in good repair, working order and condition (other than wear and tear occurring in the ordinary course of business) and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times; provided, however, that

nothing in this Section 5.03(b) shall prevent (i) sales of property, consolidations or mergers by or involving the Borrower or any Subsidiary in accordance with Section 6.03 or Section 6.05; (ii) the withdrawal by the Borrower or any of its Subsidiaries of its qualification as a foreign corporation in any jurisdiction where such withdrawal, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect; or (iii) the abandonment by the Borrower or any of its Subsidiaries of any rights, franchises, licenses, trademarks, trade names, copyrights or patents that such Person reasonably determines are not useful to its business or no longer commercially desirable.

SECTION 5.04 Obligations and Taxes.

(a) Obligation. Pay its Indebtedness and other obligations promptly and in accordance with their terms and pay and discharge promptly when due all Taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, services, materials and supplies or otherwise that, if unpaid, might give rise to a Lien other than a Lien permitted under Section 6.02 upon such properties or any part thereof; provided that such payment and discharge shall not be required with respect to any such Tax, assessment, charge, levy or claim so long as (i) the validity or amount thereof shall be contested in good faith by appropriate proceedings timely instituted and diligently conducted, (ii) the Borrower or its Subsidiary, as the case may be, shall have set aside on its books adequate reserves or other appropriate provisions with respect thereto in accordance with GAAP, and (iii) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

(b) Filing of Returns. Timely and correctly file all material Tax returns required to be filed by it. Withhold, collect and remit all Taxes that it is required to collect, withhold or remit.

SECTION 5.05 Insurance. Maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations..

SECTION 5.06 Books and Records; Inspection Rights.

(a) Keep proper books of record and account in which full, true and correct entries in conformity with GAAP and/or SAP, as applicable, and all Requirements of Law are made of all dealings and transactions in relation to its business and activities.

(b) The Borrower will, and will cause each of its Subsidiaries to, permit the Administrative Agent (or if an Event of Default is continuing, any Lender) and any representatives or independent contractors designated by the Administrative Agent or such Lender, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss affairs, finances, accounts and condition of the Borrower or any Subsidiary with the officers thereof and advisors therefor (including independent accountants), all at the expense of the Borrower and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Borrower; provided, however, that unless an Event of Default exists, the Borrower shall only be required to pay for one (1) such visit by the Administrative Agent and its representatives and independent contractors per fiscal year of the Borrower and provided, further, that when an Event of Default exists the Administrative Agent or any Lender (or any of its representatives or independent contractors) may do any of the foregoing at the sole expense of the Borrower at any time during normal business hours and without advance notice. Notwithstanding the foregoing, the Borrower may place reasonable limits on access to information which is proprietary or constitutes trade secrets and need not disclose any

information if such disclosure would be prohibited by a confidentiality agreement entered into by the Borrower on an arm's length basis and in good faith.

SECTION 5.07 Compliance with Laws. Comply with all Requirements of Law and decrees and orders of any Governmental Authority applicable to it or its property (including, without limitation, the Act), except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.08 Use of Proceeds. Use the proceeds of the Loan only for the purposes set forth in Section 3.18 and not in contravention of any Requirements of Law or of any Loan Document.

SECTION 5.09 Further Assurances. The Borrower shall promptly and duly execute and deliver to the Lenders such documents and assurances and take such further action as the Lenders may from time to time reasonably request in order to carry out more effectively the intent and purpose of this Agreement and the other Loan Documents and to establish, protect and perfect the rights and remedies created or intended to be created in favor of the Lenders pursuant to this Agreement and the other Loan Documents.

SECTION 5.10 Claims Paying Ratings. The Borrower shall ensure that each Regulated Insurance Company that is material to the Borrower and its Subsidiaries, taken as a whole, has in effect, at all times (except to the extent such Regulated Insurance Company no longer exists as a result of a transaction expressly permitted by Section 6.03 or Section 6.05), a current financial strength rating of no less than "A-" from A.M. Best Company, if such Regulated Insurance Company is rated (it being understood that each of the Existing Regulated Insurance Companies (to the extent such entity is a Subsidiary of the Borrower) is material to the Borrower and its Subsidiaries, taken as a whole).

ARTICLE VI

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that the Borrower will not, and the Borrower will not cause or permit any Subsidiaries to:

SECTION 6.01 Indebtedness. Incur, create, assume or suffer to exist or otherwise become liable in respect of any Indebtedness, except that the following shall be permitted:

(a) Indebtedness under the Loan Documents;

(b) Indebtedness existing on the Effective Date and set forth in Schedule 6.01 and extensions, renewals and replacements of any such Indebtedness with Indebtedness of a similar type that does not increase the outstanding principal amount thereof;

(c) Guarantees by any Subsidiary of the Borrower in respect of Indebtedness otherwise permitted hereunder of the Borrower or any other Subsidiary of the Borrower; provided, that if the Indebtedness that is being guaranteed is unsecured and/or subordinate to the Obligations, the guaranty shall also be unsecured and/or subordinated to the Obligations;

(d) Indebtedness in respect of Capital Lease Obligations and Purchase Money Obligations for fixed or capital assets within the limitations set forth in Section 6.02(d), and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof; provided, however, that the aggregate principal amount of all Indebtedness permitted by this Section 6.01(d) shall not exceed $50,000,000 at any one time outstanding;

(e) Indebtedness under Swap Obligations to the extent permitted by Section 6.06;

(f) Indebtedness owed by any Subsidiary to the Borrower and Indebtedness owed by any Subsidiary to any other Subsidiary of the Borrower;

(g) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of its incurrence;

(h) (i) Indebtedness resulting from the endorsements of instruments for deposit in the ordinary course of business and (ii) to the extent constituting Indebtedness, obligations in respect of purchasing card and credit card arrangements;

(i) (1) Indebtedness or other obligations of the Borrower in respect of any Existing Structured Securities; and (2) Indebtedness or other obligations of the Borrower in respect of any other Structured Securities of the Borrower issued after the Effective Date, provided, that, in the case of this clause (2), (A) such Structured Securities shall be on terms reasonably satisfactory to the Administrative Agent, (B) such Indebtedness and obligations shall be subordinated and junior in right of payment to the Obligations, and (C) no Default or Event of Default shall exist at the time such Structured Securities are issued or shall result from such issuance, and in each case with respect to clauses (1) and (2) above in this subsection (i), extensions, renewals and replacements of any such Indebtedness with Indebtedness of a similar type that does not increase the outstanding principal amount thereof;

(j) the Maiden Debt, and extensions, renewals and replacements of the Maiden Debt with Indebtedness of a similar type that does not increase the outstanding principal amount thereof;

(k) any repurchase obligations of the Borrower under any Repurchase Agreement;

(l) any Repurchase Liability of the Borrower;

(m) [Intentionally Omitted];

(n) Indebtedness of the Borrower or any Subsidiary as an account party in respect of letters of credit in an aggregate principal amount not exceeding $25,000,000 at any time outstanding;

(o) Permitted Qualifying Subordinated Indebtedness;

(p) Indebtedness assumed in connection with a Permitted Acquisition in accordance with the terms of this Agreement after the date hereof; provided that (i) such Indebtedness exists at the time of such Permitted Acquisition and is not created in contemplation of or in connection with such Permitted Acquisition, (ii) no Default or Event of Default has occurred and is continuing prior to the assumption of such Indebtedness or would arise after giving effect (including giving effect on a Pro Forma Basis) thereto and (iii) the sum of the aggregate principal amount of Indebtedness (excluding for purposes of this clause (p) only, trust preferred securities (A) which are on terms reasonably satisfactory to the Administrative Agent and (B) which Indebtedness and obligations are subordinated and

junior in right of payment to the Obligations) permitted by this clause (p) and clause (q) shall not exceed $75,000,000 at any time outstanding;

(q) Indebtedness constituting deferred purchase price incurred in connection with a Permitted Acquisition in accordance with the terms of this Agreement after the date hereof; provided that the sum of the aggregate amount of Indebtedness permitted by this clause (q) and clause (p) shall not exceed $75,000,000 at any time outstanding;

(r) other unsecured Indebtedness in an aggregate principal amount not exceeding $25,000,000 at any time outstanding;

(s) the Permitted Majestic Indebtedness;

(t) Indebtedness under the Permitted Convertible Notes; and

(u) Indebtedness incurred under or in connection with the Permitted Tax Incentive Financing Transactions.

SECTION 6.02 Liens. Create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Permitted Encumbrances;

(b) Liens under any Loan Documents;

(c) Liens on any property or asset of the Borrower or any Subsidiary existing on the Effective Date and not contemplated by any of subsections (a) and (b) above of this Section 6.02 and set forth in Schedule 6.02; provided that (i) such Liens shall not apply to any other property or asset of the Borrower or any Subsidiary and (ii) such Liens shall secure only those obligations which it secures on the Effective Date and (iii) such Liens shall not be renewed, extended or spread in any way;

(d) Liens securing Indebtedness permitted under Section 6.01(d); provided that (i) such Liens do not at any time encumber any property other than the property financed by such Indebtedness and (ii) the Indebtedness secured thereby does not exceed the cost or fair market value, whichever is lower, of the property being acquired on the date of acquisition;

(e) Liens arising from precautionary Uniform Commercial Code financing statements regarding operating leases or consignments; provided such Liens extend solely to the assets subject to such leases or consignments;

(f) Liens securing collateralized Repurchase Agreements constituting a borrowing of funds by the Borrower or any Subsidiary in the ordinary course of business for investment purposes in accordance with the Investment Policy of the Borrower;

(g) Liens in connection with the cash collateralization of Indebtedness permitted under Section 6.01(n) so long as the principal amount of Indebtedness secured by such Liens does not at any time exceed the aggregate principal amount of Indebtedness permitted under Section 6.01(n);

(h) Liens existing on any property or asset of any Person that becomes a Subsidiary in accordance with the terms of this Agreement after the date hereof prior to the time such Person

becomes a Subsidiary or Liens existing on any property or assets of any Person acquired in accordance with the terms of this Agreement after the date hereof prior to the time such property or assets are acquired; provided that (i) such Lien is not created in contemplation of or in connection with such Person becoming a Subsidiary or such property or assets being acquired, (ii) such Lien shall not apply to any other property or assets of the Borrower or any other Subsidiary, (iii) such Lien shall secure only those obligations which it secures on the date such Person becomes a Subsidiary or such property or assets are acquired, (iv) such Lien shall only secure only Indebtedness permitted by Section 6.01(p) and (v) the principal amount of Indebtedness secured by such Liens does not at any time exceed $50,000,000;

(i) the Permitted Majestic Liens; and

(j) the Permitted Tax Incentive Financing Transactions.

SECTION 6.03 Fundamental Changes. Enter into any transaction of merger or consolidation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolutions), except that, so long as no Default exists or would result therefrom:

(a) any Wholly Owned Subsidiary of the Borrower or any other Person may merge or consolidate with or into the Borrower; provided that the Borrower is the surviving or continuing Person of such transaction;

(b) any Subsidiary of the Borrower may merge or consolidate with or into any other Subsidiary of the Borrower; provided, however, that, if any Subsidiary party to such transaction is a Wholly Owned Subsidiary of the Borrower, the surviving or continuing Person of such transaction shall be a Wholly Owned Subsidiary of the Borrower; provided, further, that, if any Subsidiary party to such transaction is a Domestic Subsidiary of the Borrower, the surviving or continuing Person of such transaction shall be a Domestic Subsidiary;

(c) any Subsidiary of the Borrower may dissolve, liquidate or wind up its affairs at any time; provided that all of its assets, if any, and ongoing business are distributed or transferred to the Borrower or any other Wholly Owned Subsidiary; and

(d) any Person (other than the Borrower) may merge into any Subsidiary of the Borrower, provided that such Subsidiary of the Borrower is the surviving or continuing Person of such transaction.

SECTION 6.04 Investments, Loans, Advances, Guarantees and Acquisitions. Purchase, hold or acquire (including pursuant to any merger with any Person that was not a Wholly Owned Subsidiary prior to such merger) any Equity Interest, evidences of Indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, make or permit any capital contribution to, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit or all or a substantial part of the business of, such Person (the foregoing is collectively referred to as "Investments"), except that the following shall be permitted:

(a) Investments existing on the Effective Date and identified on Schedule 6.04;

(b) Investments in Eligible Investments; provided that such Investments shall be made solely for investment purposes for the investment portfolio of the Borrower or any Subsidiary in accordance with the Investment Policy of the Borrower and in the ordinary course of business;

(c) advances to officers, directors and employees of the Borrower and Subsidiaries of the Borrower in an aggregate amount not to exceed $50,000 at any time outstanding, for travel, entertainment, relocation and analogous ordinary business purposes;

(d) Investments by the Borrower in any Subsidiary; and Investments by any Subsidiary in any other Subsidiary;

(e) Guarantees constituting Indebtedness permitted by Section 6.01;

(f) Guarantees by the Borrower of Capital Lease Obligations of any Subsidiary permitted by Section 6.01;

(g) mergers and acquisitions permitted by Section 6.03;

(h) Swap Obligations permitted by Section 6.06;

(i) Permitted Acquisitions;

(j) Repurchase Agreements and Repurchase Transactions;

(k) the Borrower may acquire common securities of a TOPS Trust issued by such TOPS Trust to the Borrower in connection with any Structured Securities permitted by Section 6.01(i);

(l) Strategic Investments so long as the aggregate amount of all such Investments does not exceed $300,000,000 during the term of this Agreement; provided that no Strategic Investment in any single Person or series of related Persons shall be in an aggregate amount in excess of $100,000,000;

(m) the Permitted Majestic Acquisition; and

(n) the Permitted Tax Incentive Financing Transactions.

SECTION 6.05 Dispositions. Make any Disposition or enter into any agreement to make any Disposition, except:

(a) Dispositions of used, worn out, obsolete or surplus property by the Borrower or any Subsidiary of the Borrower in the ordinary course of business that is, in the reasonable judgment of the Borrower, no longer economically practicable to maintain or useful in the conduct of its business;

(b) Dispositions of inventory in the ordinary course of business;

(c) Dispositions by any Subsidiary of any all or any of its business, property or assets to the Borrower or any other Subsidiary;

(d) (1) mergers and acquisitions permitted by Section 6.03; and (2) transfers or dispositions permitted by Section 6.03(c);

(e) licenses or sublicenses by the Borrower or any Subsidiary of intellectual property and general intangibles, including, without limitation, any proprietary software of the Borrower or any Subsidiary, and licenses, leases or subleases by the Borrower or any Subsidiary of other property, in each case in the ordinary course of business and which do not materially interfere with the business of the Borrower or any of its Subsidiaries;

(f) any sale or other disposition of cash or Eligible Investments; provided, however, that, in the case of Eligible Investments, such sale or disposition shall be made solely for and in connection with the Borrower's or any Subsidiary's, as applicable, investment portfolio and in accordance with the Investment Policy of the Borrower;

(g) ceding of insurance or reinsurance in the ordinary course of business;

(h) other Dispositions of any assets of the Borrower or any of its Subsidiaries not otherwise permitted pursuant to the foregoing in this Section 6.05; provided that (A) no Default then exists or would result therefrom, and (B) such assets to be Disposed pursuant to this Section 6.05(h), together with all assets of the Borrower and its Subsidiaries previously Disposed pursuant to this Section 6.05(h), do not in the aggregate constitute a Substantial Portion of the assets of the Borrower and its Subsidiaries; and

(i) Dispositions of Investments made in compliance with Section 6.04.

SECTION 6.06 Swap Agreements. Enter into any Swap Agreement, except for the following:

(a) Swap Agreements entered into by the Borrower from time to time in connection with the Borrower's investment portfolio and in accordance with the Investment Policy of the Borrower;

(b) Swap Agreements entered into to hedge or mitigate risks to which the Borrower or any Subsidiary has actual exposure (other than those in respect of Equity Interests of the Borrower or any of its Subsidiaries);

(c) Swap Agreements entered into in order to effectively cap, collar or exchange interest rates (from fixed to floating rates, from one floating rate to another floating rate or otherwise) with respect to any interest-bearing liability or investment of the Borrower or any Subsidiary; and

(d) Permitted Call Spread Swap Agreements.

SECTION 6.07 Restricted Payments. Declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that, so long as no Default shall have occurred and be continuing at the time of any action described below or would result therefrom:

(a) the Borrower may declare and pay dividends with respect to its Equity Interests payable solely in additional shares of its common stock;

(b) the Borrower may declare and pay dividends with respect to its Equity Interests payable in cash; provided that (i) such dividend payments are made in accordance with the Borrower's dividend policy as in effect as of the Effective Date and any dividend policy in effect after the Effective Date consistent with past practice, (ii) after giving immediate effect to such dividend payments on a pro forma basis, the Borrower shall be in compliance with all the covenants set forth in Sections 6.14(a), (b), (c), (d) and (e) (in the case of Section 6.14(c) only, determined as of the most recent Test Period (assuming, for purposes of such Section 6.14(c), that such payment had occurred on the last day of such relevant Test Period)) and (iii) such dividends are not expressly prohibited pursuant to the terms of the Junior Subordinated Debentures and the related Debenture Indentures;

(c) Subsidiaries may declare and pay dividends ratably with respect to their Equity Interests;

(d) the Borrower may make Restricted Payments pursuant to and in accordance with stock option plans or other benefit plans for management or employees of the Borrower and its Subsidiaries; and

(e) the Borrower may repurchase shares of its common stock in the open market or in privately negotiated transactions; provided, that (1) the Board of Directors of the Borrower shall have authorized such repurchase and the management of the Borrower shall have determined that such repurchase is in the best interest of the Borrower and (2) the aggregate repurchase price to be paid by the Borrower for such repurchase, taken together with the sum of all aggregate repurchase prices paid by the Borrower in connection with all repurchases of its common stock since the Effective Date shall not exceed $10,000,000;

(f) the Borrower and any Subsidiary may make any payment (even if such payment is in the form of a Restricted Payment) to the Borrower or another Subsidiary that is required to be made with respect to or in connection with the terms of any tax sharing, tax allocation or other similar tax arrangement or agreement entered into among the Borrower and its Wholly Owned Subsidiaries;

(g) the Borrower may enter into, exercise its rights and perform its obligations under Permitted Call Spread Swap Agreements;

(h) the Borrower may make cash payments and/or deliveries of shares of its common stock upon conversion of Permitted Convertible Notes pursuant to the terms thereof; and

(i) the Borrower may make interest payments in respect of Indebtedness under Permitted Convertible Notes.

SECTION 6.08 Transactions with Affiliates. Sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except the following shall be permitted:

(a) transactions with any of its Affiliates (other than transactions permitted by one or more of clauses (b) through (h) below) at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties or at such prices and on terms and conditions that are consistent with past practices and approved by the Audit Committee (so long as such committee is composed solely of independent members) (or other applicable committee composed solely of independent members) of the Board of Directors of the Borrower;

(b) transactions may be entered into between or among the Borrower and its Subsidiaries not involving any other Affiliate of the Borrower to the extent such transaction is expressly permitted pursuant to this Agreement;

(c) transactions may be entered into between or among two or more Subsidiaries of the Borrower not involving any other Affiliate of the Borrower;

(d) any Restricted Payments permitted by Section 6.07;

(e) Investments permitted by Sections 6.04(d), 6.04(i) and 6.04(l);

(f) any transactions permitted by Section 6.03;

(g) transactions existing on the Effective Date and described on Schedule 6.08 and any amendments thereto that are not materially adverse to the Lenders, as reasonably determined by the Board of Directors of the Borrower, a duly authorized committee thereof or any Responsible Officer of the Borrower; and

(h) the Permitted Tax Incentive Financing Transactions.

SECTION 6.09 Restrictive Agreements. Directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (a) the ability of the Borrower or any Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets, or (b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that (i) the foregoing shall not apply to restrictions and conditions imposed by insurance law and related regulations or other law or by this Agreement, (ii) the foregoing shall not apply to restrictions and conditions existing on the Effective Date identified on Schedule 6.09 (but shall apply to any extension or renewal of, or any amendment or modification expanding the scope of, any such restriction or condition), (iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (iv) clause (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness, (v) clause (a) of the foregoing shall not apply to customary provisions in leases and other contracts restricting the assignment thereof, (vi) the foregoing shall not apply to restrictions or conditions imposed by any tax sharing, tax allocation or similar tax arrangement or agreement entered into among the Borrower and its Subsidiaries and (vii) the foregoing shall not apply to restrictions or conditions imposed by the Permitted Tax Incentive Financing Transactions so long as such restrictions or conditions apply only to the property or assets securing such Indebtedness.

SECTION 6.10 Nature of Business. Engage in any material line of business substantially different from those lines of business conducted by the Borrower and its Subsidiaries on the Effective Date (which, for the avoidance of doubt, includes the Insurance Business and asset management activities) or any business related or incidental thereto.

SECTION 6.11 Accounting Changes; Fiscal Year. Make any change in (i) its accounting policies or financial reporting practices except as required or permitted by GAAP or SAP, as the case may be, in effect from time to time or (ii) its fiscal year.

SECTION 6.12 Use of Proceeds. Use the proceeds of the Loans, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulations T, U and X of the Board) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

SECTION 6.13 Prepayments, Etc. of Other Indebtedness; and Modifications of Certain Other Agreements. Directly or indirectly:

(a) make, or agree or offer to pay or make any payment or other distribution (whether in cash, securities or other property) of or in respect of principal of or interest on the Junior Subordinated Debentures or any guarantees of the Borrower in respect of any Structured Securities issued

with respect thereto, or any payment or other distribution (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancelation or termination of any such Junior Subordinated Debentures or any such guarantees, except for payments of regularly scheduled interest and mandatory payments of fees and expenses in each case required by the terms of the applicable Debenture Indentures or other documents evidencing or governing any such Junior Subordinated Debentures or guarantees, but only to the extent permitted under the subordination provisions applicable thereto; or

(b) amend, modify, waive or otherwise change, or consent or agree to any amendment, modification, waiver or other change to, any of the terms of any Indebtedness in respect of any such Junior Subordinated Debentures or any such guarantees or any agreement evidencing, governing or otherwise related to such Indebtedness:

(i) which amends or modifies the subordination provisions contained therein;

(ii) which shortens the fixed maturity or shortens the time of payment of interest on, or increases the amount or shortens the time of payment of any principal or premium payable whether at maturity, at a date fixed for prepayment or by acceleration or otherwise of such Indebtedness, or increases the amount of, or accelerates the time of payment of, any fees payable in connection therewith; or

(iii) which relates to the affirmative or negative covenants, events of default or remedies under the documents or instruments evidencing such Indebtedness and the effect of which is to subject the Borrower or any of its Subsidiaries to any more onerous or more restrictive provisions.

SECTION 6.14 Financial Covenants.

(a) Consolidated Net Worth. The Borrower will not permit the Consolidated Net Worth at any time to be less than the sum of (i) $811,000,000 and (ii) 50% of Consolidated Net Income of the Borrower and its Subsidiaries for each fiscal year of the Borrower (beginning with the fiscal year ending December 31, 2012) for which such Consolidated Net Income is positive.

(b) Consolidated Leverage Ratio. The Borrower will not permit the Consolidated Leverage Ratio at any time to exceed 0.35 to 1.0.

(c) Consolidated Fixed Charge Coverage Ratio. The Borrower will not permit the Consolidated Fixed Charge Coverage Ratio as of the end of any fiscal quarter of the Borrower during any period set forth below to be less than the applicable ratio set forth below opposite such period:

Period:	Consolidated Fixed Charge Coverage Ratio
Effective Date through June 30, 2015	4.0 to 1.0
September 30, 2015 and thereafter	2.0 to 1.0

(d) Risk-Based Capital. The Borrower will not permit "total adjusted capital" (within the meaning of the Insurance Model Act as of the Effective Date) of (x) any of its existing or future U.S. Regulated Insurance Companies (other than Wesco and TIC), in each case as determined as of

the end of each fiscal year, commencing with the fiscal year ending December 31, 2012, to be less than 200.0% of the applicable "Company Action Level RBC" (within the meaning of the Model Act) for such Regulated Insurance Company and (y) Wesco and TIC, in each case as determined as of the end of each fiscal year, commencing with the fiscal year ending December 31, 2012, to be less than 150.0% of the applicable "Company Action Level RBC" (within the meaning of the Model Act) for such Regulated Insurance Company.

(e) Consolidated Surplus. The Borrower will not permit the Consolidated Surplus at any time to be less than the sum of (i) $873,000,000 and (ii) 50% of Consolidated Net Income of the Borrower and its Subsidiaries for each fiscal year of the Borrower (beginning with the fiscal year ending December 31, 2012) for which such Consolidated Net Income is positive.

(f) Minimum Rating. The Borrower will not permit or suffer the financial strength rating of each Regulated Insurance Company by A.M. Best Company to be less than "A-" at any time to the extent such Regulated Insurance Company is rated by A.M. Best Company.

(g) Calculations. For purposes of determining compliance with the financial covenant set forth in Section 6.14(c), with respect to any Test Period during which a Permitted Acquisition or an Asset Sale has occurred: (a) the components of Consolidated Fixed Charge Coverage Ratio shall be calculated with respect to such Test Period on a Pro Forma Basis as if each such Permitted Acquisition had been consummated on the first day of such Test Period and as if each such Asset Sale had been consummated on the day immediately prior to the first day of such Test Period; and (b) Consolidated Interest Expense shall be calculated on a Pro Forma Basis to give effect to any Indebtedness incurred, assumed or permanently repaid or extinguished during the relevant Test Period in connection with any Permitted Acquisitions and Asset Sales as if such incurrence, assumption, repayment or extinguishing had been effected on the first day of such Test Period.

ARTICLE VII

Events of Default

If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement or any other Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of three (3) Business Days;

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any Subsidiary in or in connection with this Agreement or any other Loan Document or any amendment or modification hereof or thereof or waiver hereunder or thereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement or any amendment or modification hereof or waiver hereunder, shall prove to have been incorrect when made or deemed made;

(d) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02, 5.03 (with respect to the Borrower's existence), 5.06(b) or 5.08 or in Article VI;

(e) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clause (a), (b), (c) or (d) of this Article), and such failure shall continue unremedied for a period of thirty (30) consecutive calendar days after the earlier of (i) actual knowledge of the Borrower of such default and (ii) notice thereof from the Administrative Agent to the Borrower;

(f) the Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable;

(g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this subsection (g) shall not apply to (i) secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness, (ii) any requirement to make a cash payment as a result of the early termination of a Permitted Call Spread Swap Agreement and (iii) any requirement to deliver cash upon conversion of Permitted Convertible Notes;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any Subsidiary shall (A) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (B) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (C) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets, (D) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (E) make a general assignment for the benefit of creditors or (F) take any action for the purpose of effecting any of the foregoing;

(j) the Borrower or any Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) there is entered against the Borrower or any Subsidiary thereof (A) one or more final judgments or orders for the payment of money in an aggregate amount (as to all such judgments and orders) exceeding $15,000,000 (to the extent not covered by independent third-party insurance, has been notified of the potential claim and does not dispute coverage), or (B) any one or more non-monetary final judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and in case of either (A) or (B), (x) enforcement proceedings are commenced by any

creditor upon such judgment or order, or (y) there is a period of 30 consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect;

(l) one or more ERISA Events or noncompliance with respect to Foreign Pension Plans shall have occurred that when taken together with all other such ERISA Events and noncompliance with respect to Foreign Pension Plans that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries and its ERISA Affiliates in an aggregate amount exceeding (i) the Threshold Amount in any year or (ii) the Threshold Amount for all periods;

(m) a Change in Control shall occur;

(n) any Loan Document, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or thereunder or the satisfaction in full of all the Obligations, shall cease to be in full force and effect; or the Borrower (or any Person by, through or on behalf of the Borrower), shall contest in any manner the validity or enforceability of any provision of any Loan Document; or the Borrower shall deny that it has any or further liability or obligation under any provision of any Loan Document, or purport to revoke, terminate or rescind any provision of any Loan Document; or

(o) any one or more Insurance Licenses of the Borrower or any of its Regulated Insurance Companies shall be suspended, limited or terminated or shall not be renewed, or any other action shall be taken by any Governmental Authority, and such suspension, limitation, termination, non-renewal or action, either individually or in the aggregate, has had, or would reasonably be expected to have, a Material Adverse Effect.

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other Obligations of the Borrower accrued hereunder and under the other Loan Documents, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other Obligations accrued hereunder and under the other Loan Documents, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower. Upon the occurrence and during the continuance of an Event of Default, the Administrative Agent may, and at the request of the Required Lenders shall, exercise any rights and remedies provided to the Administrative Agent under the Loan Documents or at law or equity.

ARTICLE VIII

The Administrative Agent

Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf, including execution of the other Loan Documents, and to exercise such powers as are delegated to the

Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing as directed by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or in connection with any Loan Document, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right, with the consent of the Borrower (such consent not to be unreasonably withheld), to appoint a successor; provided, that no such consent of the Borrower shall be required in the event a Default or Event of Default has occurred and is continuing. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

None of the Lenders, if any, identified in this Agreement as a Co-Syndication Agent or Co-Documentation Agent shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders as such. Without limiting the foregoing, none of such Lenders shall have or be deemed to have a fiduciary relationship with any Lender. Each Lender hereby makes the same acknowledgments with respect to the relevant Lenders in their respective capacities as Co-Syndication Agent or Co-Documentation Agent, as applicable, as it makes with respect to the Administrative Agent in the preceding paragraph.

The Lenders are not partners or co-venturers, and no Lender shall be liable for the acts or omissions of, or (except as otherwise set forth herein in case of the Administrative Agent) authorized to act for, any other Lender. The Administrative Agent shall have the exclusive right on behalf of the Lenders to enforce the payment of the principal of and interest on any Loan after the date such principal or interest has become due and payable pursuant to the terms of this Agreement.

ARTICLE IX

Miscellaneous

SECTION 9.01 Notices. (a) Except in the case of notices and other communications expressly permitted to be given by telephone (and subject to paragraph (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(i) if to the Borrower, to it at AmTrust Financial Services, Inc., 59 Maiden Lane, 6th Floor, New York, NY 10038, Attention of Harry Schlachter, Treasurer (Telecopy No. 212 220 7130; Telephone No. 212-220-7120);

(ii) if to the Administrative Agent, to JPMorgan Chase Bank, N.A., JPMorgan Loan Services, 10 South Dearborn Street, 7th Floor, Chicago, IL 60603-2003, Attention of Teresita Siao (Telecopy No. (888) 266-8058), with a copy to JPMorgan Chase Bank, N.A., 10 South Dearborn Street, 9th Floor, Chicago, IL 60603, Attention of Svetlana Skopcenko (Telecopy No. (312) 386-7632);

(iii) if to the Issuing Bank, to it at JPMorgan Chase Bank, N.A., JPMorgan Loan Services, 10 South Dearborn Street, 7th Floor, Chicago, IL 60603-2003, Attention of Debra Williams (Telecopy No. (888) 266-8058); and

(iv) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

(b) Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices pursuant to Article II unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

(c) Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

SECTION 9.02 Waivers; Amendments. (a) No failure or delay by the Administrative Agent, the Issuing Bank or any Lender in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Except as provided in Section 2.20 with respect to an Incremental Term Loan Amendment, neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or LC Disbursement or reduce the

rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender directly affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender directly affected thereby, (iv) change Section 2.18(b) or (d) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender or (v) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender (it being understood that, solely with the consent of the parties prescribed by Section 2.20 to be parties to an Incremental Term Loan Amendment, Incremental Term Loans may be included in the determination of Required Lenders on substantially the same basis as the Commitments and the Revolving Loans are included on the Effective Date); provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the Issuing Bank hereunder without the prior written consent of the Administrative Agent or the Issuing Bank, as the case may be.

(c) Notwithstanding the foregoing, this Agreement and any other Loan Document may be amended (or amended and restated) with the written consent of the Required Lenders, the Administrative Agent and the Borrower (x) to add one or more credit facilities (in addition to the Incremental Term Loans pursuant to an Incremental Term Loan Amendment) to this Agreement and to permit extensions of credit from time to time outstanding thereunder and the accrued interest and fees in respect thereof to share ratably in the benefits of this Agreement and the other Loan Documents with the Revolving Loans, Incremental Term Loans and the accrued interest and fees in respect thereof and (y) to include appropriately the Lenders holding such credit facilities in any determination of the Required Lenders and Lenders.

(d) If, in connection with any proposed amendment, waiver or consent requiring the consent of "each Lender" or "each Lender directly affected thereby," the consent of the Required Lenders is obtained, but the consent of other necessary Lenders is not obtained (any such Lender whose consent is necessary but not obtained being referred to herein as a "Non-Consenting Lender"), then the Borrower may elect to replace a Non-Consenting Lender as a Lender party to this Agreement, provided that, concurrently with such replacement, (i) another bank or other entity which is reasonably satisfactory to the Borrower and the Administrative Agent shall agree, as of such date, to purchase for cash the Loans and other Obligations due to the Non-Consenting Lender pursuant to an Assignment and Assumption and to become a Lender for all purposes under this Agreement and to assume all obligations of the Non Consenting Lender to be terminated as of such date and to comply with the requirements of clause (b) of Section 9.04, and (ii) the Borrower shall pay to such Non Consenting Lender in same day funds on the day of such replacement (1) all interest, fees and other amounts then accrued but unpaid to such Non-Consenting Lender by the Borrower hereunder to and including the date of termination, including without limitation payments due to such Non-Consenting Lender under Sections 2.15 and 2.17, and (2) an amount, if any, equal to the payment which would have been due to such Lender under Section 2.16 on the day of such replacement had the Loans of such Non-Consenting Lender been prepaid on such date rather than sold to the replacement Lender.

(e) Notwithstanding anything to the contrary herein the Administrative Agent may, with the consent of the Borrower only, amend, modify or supplement this Agreement or any of the other Loan Documents to cure any ambiguity, omission, mistake, defect or inconsistency.

SECTION 9.03 Expenses; Indemnity; Damage Waiver. (a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates,

including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication and distribution (including, without limitation, via the internet or through a service such as Intralinks) of the credit facilities provided for herein, the preparation and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Lender, including the reasonable fees, charges and disbursements of one firm as counsel for the Administrative Agent (and, in addition to such firm, any local counsel engaged in each relevant jurisdiction by such firm), one firm as counsel for the Issuing Bank (and, in addition to such firm, any local counsel engaged in each relevant jurisdiction by such firm), and one additional firm as counsel for the Lenders (and, in addition to such firm, any local counsel engaged in each relevant jurisdiction by such firm) and additional counsel as the Administrative Agent, the Issuing Bank or any Lender or group of Lenders reasonably determines are necessary in light of actual or potential conflicts of interest or the availability of different claims or defenses, in connection with the enforcement or protection of its rights in connection with this Agreement and any other Loan Document, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) The Borrower shall indemnify the Administrative Agent, the Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any agreement or instrument contemplated thereby, the performance by the parties hereto of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower or any of its Subsidiaries, and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee. This Section 9.03(b) shall not apply with respect to Taxes other than any Taxes that represent losses or damages arising from any non-Tax claim.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent or the Issuing Bank under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent or the Issuing Bank, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount (it being understood that the Borrower's failure to pay any such amount shall not relieve the Borrower of any default in the payment thereof); provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case

may be, was incurred by or asserted against the Administrative Agent or the Issuing Bank in its capacity as such.

(d) To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee (i) for any damages arising from the use by others of information or other materials obtained through telecommunications, electronic or other information transmission systems (including the Internet), or (ii) on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable not later than fifteen (15) days after written demand therefor.

SECTION 9.04 Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), Participants (to the extent provided in paragraph (c) of this Section) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) (i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

(A) the Borrower (provided that the Borrower shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Administrative Agent within five (5) Business Days after having received notice thereof); provided, further, that no consent of the Borrower shall be required for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund or, if an Event of Default has occurred and is continuing, any other assignee;

(B) the Administrative Agent; and

(C) the Issuing Bank.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender or an Affiliate of a Lender or an Approved Fund or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans of any Class, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not

be less than $5,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, provided that no such consent of the Borrower shall be required if an Event of Default has occurred and is continuing;

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, provided that this clause shall not be construed to prohibit the assignment of a proportionate part of all the assigning Lender's rights and obligations in respect of one Class of Commitments or Loans;

(C) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of $3,500, such fee to be paid by either the assigning Lender or the assignee Lender or shared between such Lenders; and

(D) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire in which the assignee designates one or more credit contacts to whom all syndicate-level information (which may contain material non-public information about the Borrower and its affiliates and their Related Parties or their respective securities) will be made available and who may receive such information in accordance with the assignee's compliance procedures and applicable laws, including Federal and state securities laws.

For the purposes of this Section 9.04(b), the term "Approved Fund" has the following meaning:

"Approved Fund" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 9.04 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount (and stated interest) of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Bank and the Lenders shall treat each Person whose name is recorded in the Register pursuant to the terms

hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register; provided that if either the assigning Lender or the assignee shall have failed to make any payment required to be made by it pursuant to Section 2.05(c), 2.06(d) or (e), 2.07(b), 2.18(e) or 9.03(c), the Administrative Agent shall have no obligation to accept such Assignment and Assumption and record the information therein in the Register unless and until such payment shall have been made in full, together with all accrued interest thereon. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c) Any Lender may, without the consent of the Borrower, the Administrative Agent or the Issuing Bank, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged; (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations; and (C) the Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. The Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 (subject to the requirements and limitations therein, including the requirements under Section 2.17(f) (it being understood that the documentation required under Section 2.17(f) shall be delivered to the participating Lender)) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section; provided that such Participant (A) agrees to be subject to the provisions of Sections 2.18 and 2.19 as if it were an assignee under paragraph (b) of this Section; and (B) shall not be entitled to receive any greater payment under Sections 2.15 or 2.17, with respect to any participation, than its participating Lender would have been entitled to receive, except to the extent such entitlement to receive a greater payment results from a Change in Law that occurs after the Participant acquired the applicable participation. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.18(d) as though it were a Lender. Each Lender that sells a participation shall, acting solely for this purpose as an agent of the Borrower, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person (including the identity of any Participant or any information relating to a Participant's interest in any Commitments, Loans, Letters of Credit or its other obligations under any Loan Document) except to the extent that such disclosure is necessary to establish that such Commitment, Loan, Letter of Credit or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person

whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, the Administrative Agent (in its capacity as Administrative Agent) shall have no responsibility for maintaining a Participant Register.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including without limitation any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05 Survival. All covenants, agreements, representations and warranties made by the Borrower in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any other Loan Document or any provision hereof or thereof.

SECTION 9.06 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or other electronic imaging shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.07 Severability. Any provision of any Loan Document held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions thereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08 Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or

demand, provisional or final and in whatever currency denominated) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower against any of and all of the Obligations held by such Lender, irrespective of whether or not such Lender shall have made any demand under the Loan Documents and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09 Governing Law; Jurisdiction; Consent to Service of Process. (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against the Borrower or its properties in the courts of any jurisdiction.

(c) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11 Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12 Confidentiality. Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors, in each case who need to know such Information in connection with the Loan Documents and the Transactions (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies under this Agreement or any other Loan Document or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii)any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis from a source other than the Borrower. For the purposes of this Section, "Information" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by the Borrower; provided that, in the case of information received from the Borrower after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13 USA PATRIOT Act. Each Lender that is subject to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act") hereby notifies the Borrower that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with the Act.

SECTION 9.14 Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable Requirements of Law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable Requirements of Law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

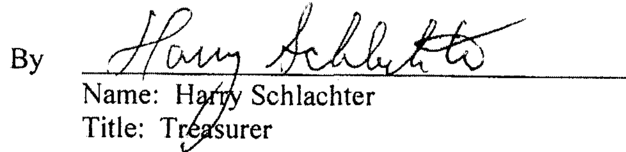
SECTION 9.15 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Borrower acknowledges and agrees that:

(i) (A) the arranging and other services regarding this Agreement provided by the Lenders are arm's-length commercial transactions between the Borrower, on the one hand, and the Lenders and their Affiliates, on the other hand, (B) the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (C) the Borrower is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (ii) (A) each of the Lenders and their Affiliates is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Borrower or any of its Affiliates and (B) no Lender or any of its Affiliates has any obligation to the Borrower or any of its Affiliates with respect to the transactions contemplated hereby except, in the case of a Lender, those obligations expressly set forth herein and in the other Loan Documents; and (iii) each of the Lenders and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and no Lender or any of its Affiliates has any obligation to disclose any of such interests to the Borrower or its Affiliates. To the fullest extent permitted by law, the Borrower hereby waives and releases any claims that it may have against each of the Lenders and their Affiliates with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

[Signature Pages Follow]

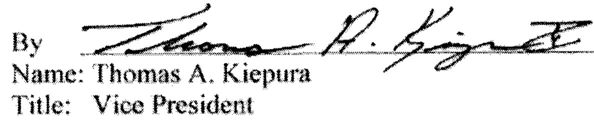
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMTRUST FINANCIAL SERVICES, INC., as the Borrower

By 

Name: Harry Schlachter
Title: Treasurer

JPMORGAN CHASE BANK, N.A., individually as a Lender, as the Issuing Bank and as Administrative Agent

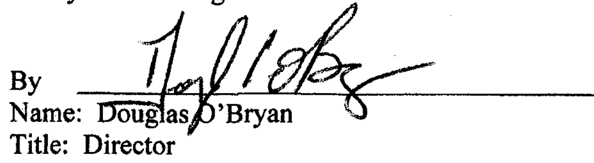
By 
Name: Thomas A. Kiepura
Title: Vice President

KEYBANK NATIONAL ASSOCIATION, individually as a Lender and as a Co-Syndication Agent

By ______________________________

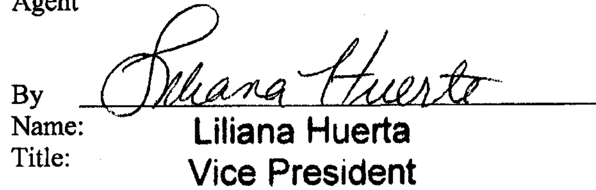
Name: James Cribbet
Title: Senior Portfolio Manager

SUNTRUST BANK, individually as a Lender and as a Co-Syndication Agent



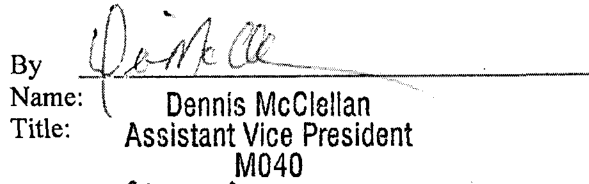
By ______________________________
Name: Douglas O'Bryan
Title: Director

ASSOCIATED BANK, NATIONAL ASSOCIATION
individually as a Lender and as a Co-Documentation Agent



By
Name: Liliana Huerta
Title: Vice President

LLOYDS TSB BANK PLC as a Lender

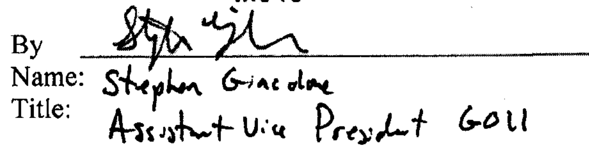


By ______________________

Name: Dennis McClellan

Title: Assistant Vice President

M040

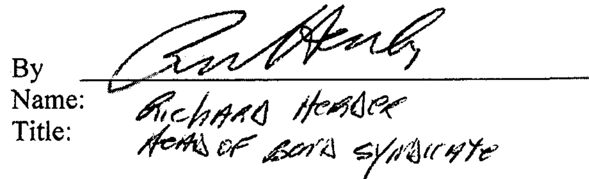


By ______________________

Name: Stephen Giacolone

Title: Assistant Vice President G011

LLOYDS SECURITIES INC as Co-Documentation Agent



By ______________________

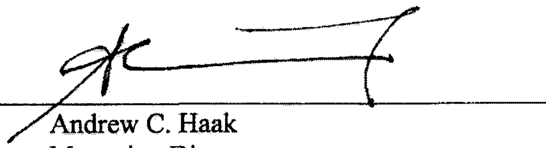
Name: Richard Herder

Title: Head of Bond Syndicate

FIRST NIAGARA BANK, N.A., as a Lender

By
Name: David R. Reading
Title: First Vice President

THE PRIVATEBANK AND TRUST COMPANY, as a Lender



By ______________________________

Name: Andrew C. Haak

Title: Managing Director

CHANG HWA COMMERCIAL BANK, LTD., NEW YORK BRANCH, as a Lender

By ______________________________

Name: Eric Y.S. Tsai

Title: Vice President & General Manager

Schedule 1.01(a) – Existing Regulated Insurance Companies

1. AmTrust International Insurance, Ltd.
2. AmTrust Captive Solutions Limited
3. AmTrust Insurance Luxembourg S.A.
4. AmTrust Re 2007 (Luxembourg)
5. AmTrust Re Alpha
6. AmTrust Re Kappa
7. AmTrust Re Zeta
8. AmTrust International Underwriters Limited
9. AmTrust Europe Ltd.
10. Pedigree Livestock Insurance Limited
11. AmTrust Insurance Company of Kansas, Inc.
12. AmTrust Lloyd's Insurance Company of Texas
13. Associated Industries Insurance Company, Inc.
14. Milwaukee Casualty Insurance Co.
15. Security National Insurance Company
16. Technology Insurance Company, Inc.
17. Rochdale Insurance Company
18. Wesco Insurance Company
19. Agent Alliance Reinsurance Company, Ltd.
20. AmTrust International Bermuda Ltd.
21. Allied Producers Reinsurance Company, Ltd.

Schedule 1.01(b) – Permitted Tax Incentive Financing Transactions

East Ninth & Superior, LLC is a Subsidiary of the Borrower
800 Superior, LLC is a Subsidiary of the Borrower

- Unsecured loan in an aggregate principal amount not to exceed $5,000,000 from the State of Ohio to East Ninth & Superior, LLC.

- Unsecured loan in an aggregate principal amount not to exceed $2,500,000 from the Borrower or a Subsidiary to East Ninth & Superior, LLC.

- Four QLICI Loans in an aggregate principal amount not to exceed $9,400,000 from CNMIF II (I), LLC to 800 Superior, LLC, each secured by a mortgage on the real property being financed by such loans.

- Three QLICI Loans in an aggregate principal amount not to exceed $10,000,000 from Key Community Development New Markets IV LLC to 800 Superior, LLC, each secured by a mortgage on the real property being financed by such loans.

- Guaranty by the Borrower of QLICI Loans made by CNMIF II (I), LLC and Key Community Development New Markets IV LLC to 800 Superior, LLC.

- Guaranty by the Borrower of 50% of the $5,000,000 unsecured loan from the State of Ohio to East Ninth & Superior, LLC.

- Two unsecured leveraged loans in an aggregate principal amount not to exceed $4,192,000 from East Ninth & Superior, LLC to 800 Superior NMTC Investment Fund II LLC.

- Two leveraged loans in an aggregate principal amount not to exceed $7,392,000 from East Ninth & Superior, LLC to 800 Superior NMTC Investment Fund LLC.

- Equity Investment by the Borrower in 24.5% of the Equity Interests of 800 Superior NMTC Investment Fund II LLC.

- Unsecured loan in an aggregate principal amount not to exceed $3,000,000 from Cuyahoga County in connection with the Permitted Tax Incentive Financing Transactions.

- Guaranty by the Borrower of 50% of a $3,000,000 unsecured loan from Cuyahoga County in connection with the Permitted Tax Incentive Financing Transactions.

- Indemnity/Contribution Agreement between the Borrower and American Capital Acquisition Corporation.

- Equity Investment by AmTrust North America Inc. in 50% of the Equity Interests of East Ninth & Superior, LLC.

- Equity Investment by the Borrower in 50% of the Equity Interests of 800 Superior, LLC.

- Lease between 800 Superior, LLC and AmTrust North America Inc.
- Lease between 800 Superior, LLC and GMAC Insurance Management Corporation.
- All documents evidencing the foregoing.

SCHEDULE 2.01

COMMITMENTS

LENDER	COMMITMENT
JPMORGAN CHASE BANK, N.A.	$38,333,333.34
KEYBANK NATIONAL ASSOCIATION	$38,333,333.33
SUNTRUST BANK	$38,333,333.33
ASSOCIATED BANK, NATIONAL ASSOCIATION	$25,000,000.00
LLOYDS TSB BANK PLC	$25,000,000.00
FIRST NIAGARA BANK, N.A.	$15,000,000.00
THE PRIVATEBANK AND TRUST COMPANY	$15,000,000.00
CHANG HWA COMMERCIAL BANK, LTD., NEW YORK BRANCH	$5,000,000.00
AGGREGATE COMMITMENT	**$200,000,000.00**

SCHEDULE 2.06

EXISTING LETTERS OF CREDIT

AMTRUST INTERNATIONAL INSURANCE LTD				
Issuer	LC Number	Global Amount	Beneficiary	Expiration Date
JPMorgan Chase Bank, N.A.	CTCS-804072	$25,700,000	AmTrust Insurance Company of Kansas	12/31/2012
JPMorgan Chase Bank, N.A.	CTCS-804073	$3,800,000	Milwaukee Casualty Insurance Company	12/31/2012
JPMorgan Chase Bank, N.A.	CTCS-804074	$200,000	Trinity Lloyds Insurance Company	12/31/2012
JPMorgan Chase Bank, N.A.	TTTS-269078	$2,123,722	State National Insurance Company Inc.	6/27/2013
JPMorgan Chase Bank, N.A.	TTTS-329420	$533,000	Great American Insurance Company	5/1/2013
JPMorgan Chase Bank, N.A.	TTTS-334393	$7,394,196	United Specialty Insurance Company	6/30/2013
JPMorgan Chase Bank, N.A.	TTTS-382903	$7,514,000	Associated Industries Insurance Company Inc.	1/1/2013
JPMorgan Chase Bank, N.A.	TTTS-694452	CAD1,000,000	Travelers Guarantee Company of Canada	3/1/2013

AMTRUST FINANCIAL SERVICES INC.				
JPMorgan Chase Bank, N.A.	CPCS-920282	$1,630,000	Travelers Casualty and Surety	3/31/2013

Schedule 3.15 – Subsidiaries

Entity Name	Jurisdiction of Organization	Person Holding Interest	Percentage Interest
800 Superior, LLC	Delaware	AmTrust Financial Services, Inc.	50%
		Integon National Insurance Company	50%
Agent Alliance Reinsurance Company, Ltd.	Bermuda	AmTrust International Insurance, Ltd.	100%
AII Insurance Management Limited	Bermuda	AmTrust International Insurance Ltd.	100%
AII Investment Holdings Limited	Bermuda	AmTrust International Insurance Ltd.	100%
AII Reinsurance Broker, Ltd.	Bermuda	AmTrust North America, Inc.	100%
AIU Management Services Limited	Ireland	AmTrust International Underwriters Limited	100%
Allied Producers Reinsurance Company, Ltd.	Bermuda	AmTrust International Insurance Ltd.	100%
AMT Capital Alpha, LLC	Delaware	AmTrust Financial Services, Inc.	50%
		American Capital Acquisition Investments, Inc.	50%
AMT Capital Holdings, S.A.	Luxembourg	AmTrust Financial Services, Inc.	50%
		ACP Re, LTD.	50%
AMT Capital Services, Inc.	Delaware	AmTrust International Insurance Ltd.	100%
AMT Home Protection Company	California	AMT Warranty Corp.	100%
AMT Road Services Corp.	Delaware	AMT Warranty Corp.	100%
AMT Warranty Corp. of Canada, ULC	Alberta, Canada	AMTS Holding Corp.	100%
AMT Warranty Corp.	Delaware	AmTrust Financial Services, Inc.	100%
AmTrust Captive Solutions Limited	Luxembourg	AmTrust Holdings Luxembourg S.A.R.L.	100%
AmTrust Corporate Capital Limited	England	I.G.I. Group Limited	100%
AmTrust E&S Insurance Services, Inc.	Delaware	AmTrust Financial Services, Inc.	100%
AmTrust Equity Solutions, Ltd.	Bermuda	AII Insurance Management Limited	100%
AmTrust Europe Ltd.	England	I.G.I. Group Limited	100%
AmTrust Europe Legal, Ltd.	England	AmTrust Europe Ltd.	100%
AmTrust Holdings Luxembourg S.A.R.L.	Luxembourg	AmTrust International Insurance Ltd.	100%
AmTrust Insurance Company of Kansas, Inc.	Kansas	AmTrust Financial Services, Inc.	100%
AmTrust Insurance Luxembourg S.A.	Luxembourg	AmTrust Holdings Luxembourg S.A.R.L.	100%
AmTrust Insurance Spain, S.L.	Spain	I.G.I. Group Limited	100%
AmTrust International Bermuda Ltd.	Bermuda	AmTrust Financial Services, Inc.	100%
AmTrust International Insurance, Ltd.	Bermuda	AmTrust Financial Services, Inc.	100%
AmTrust International Underwriters Limited	Ireland	AmTrust International Insurance Ltd.	100%
AmTrust Lloyd’s Corporation	Texas	AmTrust Financial Services, Inc.	100%
AmTrust Lloyd’s Insurance Company of Texas	Texas	AmTrust Lloyd’s Corporation	100%
AmTrust Management Services, Ltd.	England	I.G.I. Group Limited	100%
AmTrust (Nevis) Holdings Limited	Nevis	AmTrust International Insurance Ltd.	100%
AmTrust (Nevis) Limited	Nevis	AmTrust International Insurance Ltd.	100%
AmTrust Nordic, AB	Sweden	AmTrust International Underwriters Limited	100%
AmTrust North America, Inc.	Delaware	AmTrust Financial Services, Inc.	100%
AmTrust North America of Florida, Inc.	Florida	AmTrust Financial Services, Inc.	100%
AmTrust North America of Texas, Inc.	Delaware	AmTrust Financial Services, Inc.	100%

Entity Name	Jurisdiction of Organization	Person Holding Interest	Percentage Interest
AmTrust Re 2007 (Luxembourg)	Luxembourg	AmTrust Holdings Luxembourg S.A.R.L.	100%
AmTrust Re Alpha	Luxembourg	AmTrust Holdings Luxembourg S.A.R.L.	100%
AmTrust Re Kappa	Luxembourg	AmTrust Holdings Luxembourg S.A.R.L.	100%
AmTrust Re Zeta	Luxembourg	AmTrust Holdings Luxembourg S.A.R.L.	100%
AmTrust Underwriters, Inc.	Delaware	AmTrust Financial Services, Inc.	100%
AMTS Holding Corp.	Delaware	AmTrust Financial Services, Inc.	100%
Associated Industries Insurance Company, Inc.	Florida	AmTrust North America of Florida, Inc.	100%
Boca NW65, LLC	Delaware	Associated Industries Insurance Company, Inc.	100%
Builders & Tradesmen’s Insurance Services, Inc.	California	AmTrust Financial Services, Inc.	100%
Caravan Security Storage Limited	England	I.G.I. Group Limited	100%
CNH Capital Canada Insurance Agency, Ltd.	Canada	AmTrust North America, Inc.	100%
CNH Capital Insurance Agency	Delaware	AmTrust North America, Inc.	100%
Direct Reinsurance, Ltd.	Turks and Caicos Islands	Warrantech Direct, Inc.	100%
Doré & Associates Holdings Limited	England	I.G.I. Group Limited	100%
Doré & Associates Services Limited	England	Doré & Associates Holding Limited	100%
East Ninth & Superior, LLC	Delaware	AmTrust North America, Inc.	50%
		American Capital Acquisition Corp.	50%
I.G.I. Administration Services Limited	England	I.G.I. Group Limited	100%
I.G.I. Group Limited	England	AmTrust International Insurance, Ltd.	100%
I.G.I. Intermediaries, Ltd.	England	I.G.I. Group Limited	100%
I.G.I. Underwriting Agency, Inc.	New York	AmTrust Financial Services, Inc.	100%
LAE Insurance Services, Inc.	New York	Builders & Tradesmen’s Insurance Services, Inc.	100%
MCM – Medmal Claims Management S.r.L.	Italy	I.G.I. Group Limited	100%
Milwaukee Casualty Insurance Co.	Wisconsin	AmTrust Financial Services, Inc.	100%
Oakwood Village Ltd.	England	I.G.I. Group Limited	100%
PBOA, Inc.	Florida	RS Acquisition Holdco, LLC	100%
Pedigree Livestock Insurance Limited	England	AmTrust Europe Ltd.	100%
Right 2 Claim, Ltd.	England	AmTrust Europe Ltd.	100%
Risk Services – Arizona, Inc.	Arizona	RS Acquisition Holdco, LLC	100%
Risk Services (Bermuda) Ltd.	Bermuda	RS Acquisition Holdco, LLC	100%
Risk Services (Hawaii) Ltd.	Hawaii	RS Acquisition Holdco, LLC	100%
Risk Services Intermediaries (Bermuda) Ltd.	Bermuda	RS Acquisition Holdco, LLC	100%
Risk Services, LLC	Virginia	RS Acquisition Holdco, LLC	100%
Risk Services – Nevada, Inc.	Nevada	RS Acquisition Holdco, LLC	100%
Risk Services – Vermont, Inc.	Vermont	RS Acquisition Holdco, LLC	100%
RS Acquisition Holdco, LLC	Delaware	AmTrust Financial Services, Inc.	80% (A)
		Michael Rogers	20% (B)
Rochdale Insurance Company	New York	Technology Insurance Company, Inc.	100%
Rock Run South, LLC	Delaware	AmTrust Financial Services, Inc.	100%
Security National Insurance Company	Texas	AmTrust Financial Services, Inc.	100%

Entity Name	Jurisdiction of Organization	Person Holding Interest	Percentage Interest
Signal Acquisition LLC	Delaware	AmTrust North America, Inc.	100%
Signal Service Solutions, LLC	Delaware	Signal Acquisition LLC	100%
Technology Insurance Company, Inc.	New Hampshire	AmTrust Financial Services, Inc.	100%
Tiger Capital, LLC	Delaware	AmTrust International Insurance Ltd.	50% (A)
		American Capital Acquisition Investments, Inc.	50% (A)
		Madison Strategic Partners NY LLC	20% (B)
Vemeco, Inc.	Connecticut	Warrantech Automotive, Inc.	100%
Warrantech Automotive, Inc.	Connecticut	Warrantech Corporation	100%
Warrantech Automotive of Canada, Inc.	Canada	Warrantech Automotive, Inc.	100%
Warrantech Automotive of Florida, Inc.	Florida	Warrantech Automotive, Inc.	100%
Warrantech Caribbean, Ltd.	Grand Cayman Islands	Warrantech Corporation	100%
Warrantech Consumer Product Services, Inc.	Connecticut	Warrantech Corporation	100%
Warrantech Corporation	Nevada	AMT Warranty Corp.	100%
Warrantech Direct, Inc.	Texas	Warrantech Corporation	100%
Warrantech Direct I, LP	Texas	W Direct Corp.	100%
Warrantech Home Assurance Company	Florida	Warrantech Home Service Company	100%
Warrantech Home Service Company	Connecticut	Warrantech Consumer Product Services, Inc.	100%
Warrantech Management Company	Delaware	Warrantech Corporation	100%
Warrantech Management Holding Company	Delaware	Warrantech Management Company	100%
Warrantech Management, Limited Partnership	Texas	Warrantech Management Company	100%
Warrantech International, Inc.	Delaware	Warrantech Corporation	100%
Warrantech International de Chile	Chile	Warrantech International, Inc.	100%
Warrantech Mexico, S de RL de CV	Mexico	Warrantech Automotive, Inc.	66.67%
		Warrantech Corporation	33.33%
Warrantech Peru SrL	Peru	Warrantech International, Inc.	100%
WCPS of Florida, Inc.	Florida	Warrantech Consumer Product Services, Inc.	100%
W Direct Corp.	Delaware	Warrantech Direct, Inc.	100%
Westport Reinsurance Limited	Turks and Caicos Islands	Warrantech Automotive, Inc.	100%
WHSC Direct, Inc.	Texas	Warrantech Home Assurance Company	100%
Wesco Insurance Company	Delaware	AmTrust Financial Services, Inc.	100%
Westside Parkway GA, LLC	Delaware	AmTrust Financial Services, Inc.	100%

Schedule 6.01 – Existing Indebtedness

1. Existing Debentures: (a) the fixed/floating rate junior subordinated deferrable interest debentures due 2037 in the original aggregate principal amount of $40.0 million; (b) the fixed/floating rate junior subordinated deferrable interest debentures due 2036 in the original aggregate principal amount of $30.0 million; (c) the fixed/floating rate junior subordinated deferrable interest debentures due March 2035 in the original aggregate principal amount of $25.0 million; and (d) the fixed/floating rate junior subordinated deferrable interest debentures due June 2035 in the original aggregate principal amount of $25.0 million; in each case with respect to the foregoing, issued to TOPS Trusts pursuant to the applicable Existing Indenture (either the Indenture, dated as of March 17, 2005, between the Borrower and Wilmington Trust Company, the Indenture, dated as of June 15, 2005, between the Borrower and Wilmington Trust Company or the Indenture, dated as of July 25, 2006, between Borrower and Wilmington Trust Company).

2. Existing Guarantees: (a) the Guarantee Agreement, dated as of March 17, 2005, between the Borrower and Wilmington Trust Company; (b) the Guarantee Agreement, dated as of June 15, 2005, between the Borrower and Wilmington Trust Company; (c) the Guarantee Agreement, dated July 25, 2006, between the Borrower and Wilmington Trust Company; and (d) the Guarantee Agreement, dated as of March 22, 2007, between the Borrower and Wilmington Trust Company.

3. An earn-out payment to WT Acquisition Holdings, LLC, pursuant to the Stock Purchase Agreement, dated August 20, 2010, between AMT Warranty Corp. and WT Acquisition Holdings, LLC, equal to 15% of AMT Warranty Corp.'s EBITDA for the calendar years ended December 31, 2011, 2012 and 2013, which amount shall not be less than $2,000,000 or more than $3,000,000.

4. Guaranty, dated October 16, 2009, made by The Michael Karfunkel 2005 Grantor Retained Annuity Trust and the Borrower in favor of GMAC Insurance Holdings, Inc. and Motors Insurance Corporation for Borrower's proportionate share of deferred payments payable by American Capital Acquisition Corporation pursuant to the Securities Purchase Agreement between American Capital Acquisition Corporation, GMAC Insurance Holdings, Inc. and Motors Insurance Corporation.

5. Parent Guaranty, effective October 14, 2009, made by the Borrower in favor of Microsoft Corporation for the obligations of AMT Warranty Corp. under its extended service plan program to cover the repair and/or replacement of certain consumer products sold by Microsoft.

6. Guaranty, dated February 9, 2010, made by Wesco Insurance Company and the Borrower in favor of PayLink Payment Plans, LLC for the refund of all unearned premium received by Wesco Insurance Company in connection with payment plan accounts with outstanding balances that are serviced by PayLink related to vehicle service contracts administered by Royal Administration Services, Inc.

7. Guaranty, dated November 24, 2009, made by Wesco Insurance Company and the Borrower in favor of Mepco Finance Corporation for the refund of all unearned premium received by Wesco Insurance Company in connection with payment plan accounts with outstanding balances that are serviced by Mepco related to vehicle service contracts administered by Royal Administration Services, Inc.

8. Guaranty, dated June 20, 2011, made by Wesco Insurance Company in favor of Service Payment Plan, Inc. for the payment of any cancellation refund owed to Service Payment Plan, Inc. that is received by OwnerGUARD Corporation, a third-party vehicle service contracts administrator, if OwnerGUARD Corporation fails to pay (capped at $300,000).

9. Guarantee by the Borrower in favor of Maiden Insurance for the punctual performance and discharge of AII's obligations arising under the Quota Share Reinsurance Agreement and the Loan Agreement between AII and Maiden Insurance (pursuant to Section 10.1 of the Master Agreement between the Borrower and Maiden Holdings, Ltd., dated July 3, 2007, as amended on September 17, 2007).

10. Secured Loan Agreement, dated February 24, 2011, between AmTrust Underwriters, Inc., a Subsidiary of Borrower, and Banc of America Leasing & Capital, LLC in the aggregate principal amount of $10.8 million to finance the purchase of an aircraft.

11. Guaranty, dated February 24, 2011, by Borrower in favor of Banc of America Leasing & Capital, LLC for the obligations of AmTrust Underwriters, Inc. arising under the Secured Loan Agreement dated February 24, 2011, between AmTrust Underwriters, Inc., a Subsidiary of Borrower, and Banc of America Leasing & Capital, LLC.

12. Amended and Restated Promissory Note, dated July 5, 2012, from 800 Superior, LLC in favor of ACP Re, Ltd. in the amount of $5.0 million.

13. Master Equipment Lease Agreement, dated December 28, 2007, between Key Equipment Finance Inc. and Majestic Insurance Company, as assumed by AmTrust North America, Inc., a Subsidiary of the Borrower, on December 16, 2011.

14. JPMorgan Chase Irrevocable Standby Letter of Credit, dated September 27, 2007, in the amount of $363,681, issued in favor of Capitol Indemnity Corporation and/or Platt River Insurance Company.

15. JPMorgan Chase Irrevocable Standby Letter of Credit, dated June 10, 2009, in the amount of $6,010,094, issued in favor of Dealers Assurance Company.

16. JPMorgan Chase Irrevocable Standby Letter of Credit, dated April 2, 2009, in the amount of CAD1,000,000, issued in favor of Travelers Guarantee Company of Canada.

Schedule 6.02 – Existing Liens

1. Lien in favor of Banc of America Leasing & Capital, LLC securing the Borrower's obligations under the Secured Loan Agreement, dated February 24, 2011, between the Borrower and Bank of America Leasing & Capital, LLC, in connection with the purchase of an aircraft.

2. Lien in favor of Key Equipment Finance Inc. securing AmTrust North America, Inc.'s obligations under the Master Equipment Lease Agreement, dated December 28, 2007, between Key Equipment Finance Inc. and Majestic Insurance Company, as assumed by AmTrust North America, Inc. on December 16, 2011, covering furniture, fixtures, phone systems and equipment at Borrower's offices at 101 California Street, San Francisco, California.

3. Pledge of cash to secure JPMorgan Chase Irrevocable Standby Letter of Credit, dated September 27, 2007, in the amount of $363,681, issued in favor of Capitol Indemnity Corporation and/or Platt River Insurance Company.

4. Pledge of cash to secure JPMorgan Chase Irrevocable Standby Letter of Credit, dated June 10, 2009, in the amount of $6,010,094, issued in favor of Dealers Assurance Company.

Schedule 6.04 – Existing Investments

1. Investment in American Capital Acquisition Corporation: During the three months ended March 31, 2010, the Borrower completed its strategic investment in American Capital Acquisition Corporation ("ACAC"), a company formed by the Michael Karfunkel 2005 Grantor Retained Annuity Trust (the "Trust") and the Borrower for the purpose of acquiring from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation ("MIC", together with GMAC Insurance Holdings, Inc., "GMACI"), GMACI's U.S. consumer property and casualty insurance business. Michael Karfunkel, individually, and the Trust own 100% of ACAC's common stock (subject to the Borrower's conversion rights). Pursuant to the Amended Stock Purchase Agreement, ACAC issued and sold to the Borrower for an initial purchase price of approximately $53,000,000, which was equal to 25% of the capital required by ACAC, 53,054 shares of Series A Preferred Stock, which provides an 8% cumulative dividend, is non-redeemable and convertible, at the Borrower's option, into 21.25% of the issued and outstanding common stock of ACAC.

Schedule 6.08 – Transactions with Affiliates

- Transactions with Maiden Holdings, Ltd. and its subsidiaries ("Maiden"). Maiden is a publicly-held Bermuda insurance holding company formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, the principal shareholders, and, respectively, the Borrower's chairman of the board of directors, a director, and the Borrower's chief executive officer and director. As of December 31, 2010, Michael Karfunkel owns or controls approximately 13.8% of the issued and outstanding capital stock of Maiden, George Karfunkel owns or controls approximately 9.4% of the issued and outstanding capital stock of Maiden and Mr. Zyskind owns or controls approximately 5.1% of the issued and outstanding stock of Maiden. Mr. Zyskind serves as the non-executive chairman of the board of Maiden's board of directors. Maiden Insurance Company, Ltd ("Maiden Insurance"), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer.

  - Reinsurance Agreements with Maiden: During the third quarter of 2007, the Borrower and Maiden entered into a master agreement, as amended, by which AmTrust International Insurance, Ltd. ("AII") and Maiden Insurance Company, Ltd ("Maiden Insurance"), a wholly-owned subsidiary of Maiden, entered into a quota share reinsurance agreement (the "Maiden Quota Share"), as amended, by which AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by the Borrower's U.S., Irish and U.K. insurance companies (the "AmTrust Ceding Insurers"), net of the cost of unaffiliated inuring reinsurance (and in the case of AmTrust Europe, Ltd. ("AEL"), net of commissions) and 40% of losses excluding certain specialty risk programs that the Company commenced writing after the effective date, including the Company's European medical liability business discussed below, and risks, other than workers' compensation risks and certain business written by the Company's Irish subsidiary, AmTrust International Underwriters Limited ("AIU"), for which the AmTrust Ceding Insurers' net retention exceeds $5,000 ("Covered Business").

    The Borrower also agreed to cause AII, subject to regulatory requirements, to reinsure any insurance company that writes Covered Business in which the Borrower acquires a majority interest to the extent required to enable AII to cede to Maiden Insurance 40% of the premiums and losses related to such Covered Business.

    The Maiden Quota Share, which had an initial term of three years, was renewed through June 30, 2014 and will automatically renew for successive three-year terms unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three-year term.

    The Maiden Quota Share, as amended, further provides that AII receives a ceding commission based on a percentage of ceded written premiums with respect to all Covered Business. Commencing January 1, 2012, the ceding commission with respect to all Covered Business other than the retail commercial package business is adjusted on a quarterly basis to (a) 30% of ceded premium, if the Specialty Risk and Extended Warranty subject premium, excluding ceded premium related to our medical liability business discussed below, is greater than or equal to 42% of the total subject premium, (b) 30.5% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 42% but greater than or equal to 38%, or (c) 31% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 38% of the total subject premium. The ceding commission for the retail commercial package business is 34.375% of ceded premium. From April 1, 2011 until December 31, 2011, AII received a ceding commission of 30% of ceded written premium with respect to all Covered Business other than the retail commercial package business, for which the ceding commission was 34.375%. Prior to April 1, 2011, AII received a ceding commission of 31% of ceded premiums with respect to all

Covered Business other than the retail commercial package business, for which the ceding commission was 34.375%.

Effective April 1, 2011, Borrower, through its Subsidiaries AEL and AIU, entered into a reinsurance agreement with Maiden Insurance by which the Borrower cedes to Maiden Insurance 40% of the Borrower's European medical liability business, including business in force at April 1, 2011. The quota share has an initial term of one year, automatically renews for one-year terms and can be terminated by either party on four months' prior written notice. Maiden Insurance pays Borrower a five percent ceding commission, and Borrower will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%.

Effective September 1, 2010, Borrower, through its Subsidiary, Security National Insurance Company ("SNIC"), entered into a reinsurance agreement with Maiden Reinsurance Company and an unrelated third party. Under the agreement, which had an initial term of one year and has been extended to August 31, 2012, SNIC cedes 80% of the gross liabilities produced under the Southern General Agency program to Maiden Reinsurance Company and 20% of the gross liabilities produced to the unrelated third party. SNIC receives a five percent commission on ceded written premiums.

- Reinsurance Brokerage Agreement: Effective July 1, 2007, the Borrower, through a subsidiary, entered into a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, the Borrower provides brokerage services relating to the Maiden Quota Share for a fee equal to 1.25% of reinsured premium. The brokerage fee is payable in consideration of AII Reinsurance Broker Ltd.'s brokerage services.

- Asset Management Agreement: Effective July 1, 2007, the Borrower, through a Subsidiary, entered into an asset management agreement with Maiden, pursuant to which it provides investment management services to Maiden and its Affiliates. The investment management services fee is 0.20% per annum for periods in which average invested assets are $1.0 billion or less and 0.15% per annum for periods in which the average invested assets exceeds $1.0 billion.

- The Maiden Debt.

- Fronting Arrangement: Effective September 1, 2010, Borrower, through its wholly-owned Subsidiary Technology Insurance Company ("TIC"), entered into a 90% quota share reinsurance agreement with Maiden Specialty Insurance Company ("Maiden Specialty") by which TIC assumes 90% of premiums and losses with respect to certain surplus lines programs written by Maiden Specialty on behalf of the Borrower (the "Surplus Lines Facility"). The Surplus Lines Facility enables Borrower to write business on a surplus lines basis throughout the United States in states in which Borrower is unauthorized to write such business through its own insurance subsidiaries. Currently, Borrower is utilizing the Surplus Lines Facility for two programs for which Maiden Specialty receives a five percent ceding commission on all premiums ceded by Maiden Specialty to TIC. The Surplus Lines Facility shall remain continuously in force until terminated. Borrower has surplus lines authority for two of its insurance subsidiaries, which has significantly decreased the need for the Surplus Lines Facility.

- Investment in ACAC (see description on Schedule 6.04). In addition, in connection with the Borrower's investment:

  - the Borrower provides ACAC and its Affiliates information technology development services in connection with the development and licensing of a policy management system at a cost which is

currently 1.25% of gross written premium of ACAC and its Affiliates plus Borrower's costs for development and support services;

- the Borrower manages the assets of ACAC and its subsidiaries for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1.0 billion or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1.0 billion;

- ACAC will grant the Borrower a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMAC in connection with the Acquisition; and

- the Borrower, effective March 1, 2010, reinsures 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement ("Personal Lines Quota Share") among Integon National Insurance Company, lead insurance company on behalf of the GMACI Insurers, as cedents, and the Company, ACP Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. The Borrower has a 20% participation in the Personal Lines Quota Share, by which it receives 10% of the net premiums of the personal lines business and assumes 10% of the related net losses. The Personal Lines Quota Share has an initial term of three years and will renew automatically for successive three-year terms unless terminated by written notice not less than nine months prior to the expiration of the current term.

- Lease of office space at 59 Maiden Lane in New York City: In 2002, the Borrower entered into a lease for approximately 9,000 square feet of office space at 59 Maiden Lane in New York, New York from 59 Maiden Lane Associates, LLC, an entity that is wholly-owned by Michael Karfunkel and George Karfunkel. Effective January 1, 2008, the Borrower entered into an amended lease whereby it increased its leased space to 14,807 square feet and extended the lease through December 31, 2017.

- Lease of office space at 33 West Monroe in Chicago: In 2008, the Borrower entered into a lease for approximately 5,000 square feet of office space in Chicago, Illinois from 33 West Monroe Associates, LLC, an entity that is wholly-owned by Michael Karfunkel and George Karfunkel. Effective May 1, 2009, the Borrower entered into an amended lease by whereby it increased its leased space to 7,156 square feet. On January 24, 2011, the Borrower entered into another amendment to the lease to increase its leased space to 9,030 square feet and extend the term of the lease to October 31, 2017.

- In August 2011, the Borrower formed 800 Superior, LLC ("800 Superior") with a subsidiary of ACAC for the purpose of acquiring an office building in Cleveland, Ohio. The Borrower and such subsidiary each have a fifty percent ownership interest in 800 Superior. The cost of the building was approximately $7,500,000. The Borrower has been appointed managing member of 800 Superior. In July 2012, 800 Superior, LLC entered into a promissory note with ACP Re, Ltd. in the amount of $5,000,000. The proceeds from the note will be used for leasehold improvements on the office building. The note matures in October 2012 and bears interest at a rate of 2.00% per annum. Additionally in 2012, ACAC entered into an office lease with 800 Superior, LLC for approximately 134,000 square feet of the office building. The lease period is for fifteen years.

- Management Agreement with ACP Re, Ltd.: Borrower provides investment management services and accounting and administrative services to ACP Re, Ltd., an entity controlled by Michael Karfunkel, for a monthly fee of $10,000 and (i) a quarterly rate of 0.05% of the average value of ACP Re, Ltd.'s invested assets for the preceding calendar quarter if the average value of such assets for the quarter was $1.0 billion or less, or (ii) a quarterly rate of 0.0375% of the average value of ACP Re, Ltd.'s invested assets for the preceding calendar quarter if the average value of such assets for the quarter was greater than $1.0 billion.

- Use of Company Aircraft: Borrower's Subsidiary, AmTrust Underwriters, Inc. ("AUI"), is a party to an aircraft time share agreement with each of Maiden and ACAC. The agreements provide for payment to AUI for usage of its company-owned aircraft and covers actual expenses incurred and permissible under federal aviation regulations, including travel and lodging expenses of the crew, in-flight catering, flight planning and weather contract services, ground transportation, fuel, landing and hanger fees, airport taxes, among others. AUI does not charge Maiden or ACAC for the fixed costs that would be incurred in any event to operate the aircraft (for example, aircraft purchase costs, insurance and flight crew salaries).

  In addition, for personal travel, Mr. Zyskind, Borrower's President and Chief Executive Officer and Michael Karfunkel, the Chairman of the Board, each entered into an aircraft reimbursement agreement with AUI and, since entering into such agreement, has fully reimbursed AUI for the incremental cost billed by AUI for their personal use of AUI's aircraft.

Schedule 6.09 – Restrictions

1. Existing Debentures, Existing Indentures and Existing Guarantees.

EXHIBIT A

ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (the "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [*Insert name of Assignor*] (the "Assignor") and [*Insert name of Assignee*] (the "Assignee"). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (as amended, the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (i) all of the Assignor's rights and obligations in its capacity as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including any letters of credit and guarantees included in such facilities) and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as the "Assigned Interest"). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor.

1. Assignor: ______________________________

2. Assignee: ______________________________

[and is an Affiliate/Approved Fund of [identify Lender][1]]

3. Borrower(s): AmTrust Financial Services, Inc.

4. Administrative Agent: JPMorgan Chase Bank, N.A., as the administrative agent under the Credit Agreement

5. Credit Agreement: The Credit Agreement dated as of August 10, 2012 among AmTrust Financial Services, Inc., the Lenders parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other agents parties thereto

[1] Select as applicable.

6. Assigned Interest:

Aggregate Amount of Commitment/Loans for all Lenders	Amount of Commitment/ Loans Assigned	Percentage Assigned of Commitment/Loans[2]
$	$	%
$	$	%
$	$	%

Effective Date: _____________ ___, 20___ [TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: ____
Title:

ASSIGNEE

[NAME OF ASSIGNEE]

By: ____
Title:

Consented to and Accepted:

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent and Issuing Bank

By: __________________________________
Title:

[Consented to:][3]

AMTRUST FINANCIAL SERVICES, INC.

By: __________________________________
Title:

[2] Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.
[3] To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

ANNEX I

STANDARD TERMS AND CONDITIONS FOR

ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2 Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it satisfies the requirements, if any, specified in the Credit Agreement that are required to be satisfied by it in order to acquire the Assigned Interest and become a Lender, (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (v) if it is a Non-U.S. Lender, attached to the Assignment and Assumption is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this

Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of New York.

EXHIBIT B

OPINION OF COUNSEL FOR THE LOAN PARTIES

[ATTACHED]

August 10, 2012

To the Lenders and the Administrative
Agent referred to below
c/o JPMorgan Chase Bank, N.A., as
Administrative Agent
10 South Dearborn Street, 7th Floor
Chicago, Illinois 60603-2003

Ladies and Gentlemen:

We have acted as counsel to AmTrust Financial Services, Inc., a Delaware corporation (the "Borrower"), in connection with the execution and delivery of the Credit Agreement, dated as of August 10, 2012 (the "Credit Agreement"), among the Borrower, the financial institutions identified therein as Lenders, JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and SunTrust Bank, as Co-Syndication Agents and Associated Bank, National Association and Lloyds Securities Inc., as Co-Documentation Agents. This opinion is being delivered pursuant to Section 4.01(b) of the Credit Agreement. Unless otherwise indicated, capitalized terms used herein but not otherwise defined herein shall have the respective meanings set forth in the Credit Agreement.

In connection with this opinion, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents as we have deemed necessary or appropriate as a basis for the opinions set forth herein, including, without limitation, (a) the Credit Agreement, (b) each Note made by the Borrower in favor of a Lender, dated as of the date hereof (each, a "Note," and collectively, the "Notes"), (c) a certificate of the Secretary of the Borrower certifying as to, among other things, the authenticity and correctness of the Amended and Restated Certificate of Incorporation, the Amended and Restated By-laws and the resolutions adopted by the board of directors of the Borrower at a meeting duly held on August 6, 2012 at which a quorum was acting and present at all relevant times (the "Secretary's Certificate"), (d) the officer's certificate delivered pursuant to Section 4.01(f) of the Credit Agreement (the "Officer's Certificate"), (e) an officer's certificate delivered to us by the Borrower (the "Opinion Officer's Certificate") and (f) such other public and corporate documents and records as we have deemed necessary or appropriate in connection with this opinion.

In our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, electronic or photostatic copies, the authenticity of the originals of such copies, the due authorization, execution, acknowledgment and delivery by all parties thereto (other than by the Borrower) of all documents examined by us and the power and authority of the parties to those documents examined by us (other than the Borrower) to enter into and perform the obligations of such party thereunder. As to questions of fact not independently verified by us we have relied, to the extent we deemed appropriate, upon representations and certificates of officers of the Borrower, including, but not limited to, the Secretary's Certificate, the Officer's Certificate and the Opinion Officer's Certificate, public officials and other appropriate persons.

Based upon the foregoing, but subject to the assumptions and qualifications hereinafter set forth, we are of the opinion that, as of the date of this letter:

1. The Borrower (a) is a corporation duly organized, validly existing and in good standing under the laws of Delaware, (b) has all requisite power and authority to carry on its business as now conducted and (c) except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in every jurisdiction where such qualification is required.

2. The Transactions are within the Borrower's corporate powers and have been duly authorized by all necessary corporate action. Each of the Credit Agreement and each Note has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other laws affecting creditors' rights generally and subject to general principles of equity and the exercise of judicial discretion (regardless of whether such enforceability is considered in a proceeding at law or in equity, except insofar as rights to indemnification and contribution contained therein may be limited by federal or state securities laws or related public policy).

3. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect and the filing of Form 8-K as required by the SEC, which will be accomplished promptly following the Effective Date, (b) will not violate any applicable law or regulation or the Amended and Restated Certificate of Incorporation or Amended and Restated By-laws of the Borrower or any order, known to us, of any Governmental Authority applicable to the Borrower, (c) will not violate or result in a default under any material indenture, agreement or other instrument, known to us, binding upon the Borrower or its assets, or give rise to a right thereunder to require any payment to be made by the Borrower and (d) will not result in the creation or imposition of any Lien on any asset of the Borrower.

4. To the best of our knowledge, there are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending or threatened against or affecting the Borrower (a) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect (other than the Disclosed Matters) or (b) that involve the Credit Agreement, the Notes or the Transactions.

5. The Borrower is not an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940, as amended.

The opinions set forth herein are subject to the following assumptions and qualifications:

(a) In basing the opinions and other matters set forth herein on "our knowledge" or "known to us," the words "our knowledge" or "known to us" signify that, in the course of our representation of the Borrower in matters with respect to which we have been engaged by the Borrower, as counsel, no information has come to our attention that would give us actual knowledge or actual notice that any such opinions or other matters are not accurate or that any of the foregoing documents, certificates, reports and information on which we have relied are not accurate and complete. Except as otherwise stated in this opinion, we have undertaken no independent investigation or verification of such matters. The words "our knowledge," "known to us" and similar language used herein are intended to be limited to the knowledge of the lawyers within our firm who have worked on matters on behalf of the Borrower.

(b) Our opinion in paragraph 3 above is not intended to cover consents, approvals or filings that might be required as a result of the ordinary course conduct by the Borrower of its businesses and operations.

(c) We express no opinion as to the laws of any jurisdiction other than the laws of the State of New York, the Delaware General Corporation Law and the laws of the United States of America.

(d) We express no opinion as to the application or requirements of the state or federal securities, environmental or tax laws in respect of the Transactions contemplated by or referred to in the Credit Agreement.

(e) We express no opinion as to the validity or enforceability of any provision of the Credit Agreement or the Notes that (i) permits the Lenders or the Administrative Agent to charge a pre-payment premium or to increase the rate of interest or to collect a late charge in the event of delinquency or default to the extent such premium, interest rate increase or late charge would violate usury laws or be considered a penalty, (ii) purports to be a waiver by the Borrower of any right or benefit (including, without limitation, any cognovit provisions or confessions of judgment) except to the extent permitted by applicable law, (iii) purports to grant the Administrative Agent or any of the Lenders a power-of-attorney or (iv) purports to require that waivers be in writing.

This opinion is being furnished only to the addressees and is solely for their benefit and the benefit of their permitted participants and assigns in connection with the Transactions. The opinions expressed in this letter are limited to the matters set forth in this letter and no other opinions should be inferred beyond the matters expressly stated. We assume no obligation to revise or supplement this opinion in the event of any amendment, supplement or other modification of the Credit Agreement, the Notes or any of the other Loan Documents, or if the present law of the State of New York or the United States of America or the Delaware General Corporation Law is changed by legislative action, judicial decision or otherwise. This opinion may not be relied upon for any other purpose, or relied upon by any other person, firm or corporation for any purpose, without our prior written consent.

Very truly yours,

Thompson Hine LLP

[KDB;djn]

EXHIBIT C

FORM OF INCREASING LENDER SUPPLEMENT

INCREASING LENDER SUPPLEMENT, dated __________, 20___ (this "Supplement"), by and among each of the signatories hereto, to the Credit Agreement, dated as of August 10, 2012 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), among AmTrust Financial Services, Inc. (the "Borrower"), the Lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H

WHEREAS, pursuant to Section 2.20 of the Credit Agreement, the Borrower has the right, subject to the terms and conditions thereof, to effectuate from time to time an increase in the Aggregate Commitment and/or one or more tranches of Incremental Term Loans under the Credit Agreement by requesting one or more Lenders to increase the amount of its Commitment and/or to participate in such a tranche;

WHEREAS, the Borrower has given notice to the Administrative Agent of its intention to [increase the Aggregate Commitment] [and] [enter into a tranche of Incremental Term Loans] pursuant to such Section 2.20; and

WHEREAS, pursuant to Section 2.20 of the Credit Agreement, the undersigned Increasing Lender now desires to [increase the amount of its Commitment] [and] [participate in a tranche of Incremental Term Loans] under the Credit Agreement by executing and delivering to the Borrower and the Administrative Agent this Supplement;

NOW, THEREFORE, each of the parties hereto hereby agrees as follows:

1. The undersigned Increasing Lender agrees, subject to the terms and conditions of the Credit Agreement, that on the date of this Supplement it shall [have its Commitment increased by $[__________], thereby making the aggregate amount of its total Commitments equal to $[__________]] [and] [participate in a tranche of Incremental Term Loans with a commitment amount equal to $[__________] with respect thereto].

2. The Borrower hereby represents and warrants that no Default or Event of Default has occurred and is continuing on and as of the date hereof.

3. Terms defined in the Credit Agreement shall have their defined meanings when used herein.

4. This Supplement shall be governed by, and construed in accordance with, the laws of the State of New York.

5. This Supplement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same document.

IN WITNESS WHEREOF, each of the undersigned has caused this Supplement to be executed and delivered by a duly authorized officer on the date first above written.

[INSERT NAME OF INCREASING LENDER]

By: ______________________________
Name:
Title:

Accepted and agreed to as of the date first written above:

AMTRUST FINANCIAL SERVICES, INC.

By: ______________________________
Name:
Title:

Acknowledged as of the date first written above:

JPMORGAN CHASE BANK, N.A.
as Administrative Agent

By: ______________________________
Name:
Title:

EXHIBIT D

FORM OF AUGMENTING LENDER SUPPLEMENT

AUGMENTING LENDER SUPPLEMENT, dated __________, 20___ (this "Supplement"), to the Credit Agreement, dated as of August 10, 2012 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), among AmTrust Financial Services, Inc. (the "Borrower"), the Lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H

WHEREAS, the Credit Agreement provides in Section 2.20 thereof that any bank, financial institution or other entity may [extend Commitments] [and] [participate in tranches of Incremental Term Loans] under the Credit Agreement subject to the approval of the Borrower and the Administrative Agent, by executing and delivering to the Borrower and the Administrative Agent a supplement to the Credit Agreement in substantially the form of this Supplement; and

WHEREAS, the undersigned Augmenting Lender was not an original party to the Credit Agreement but now desires to become a party thereto;

NOW, THEREFORE, each of the parties hereto hereby agrees as follows:

1. The undersigned Augmenting Lender agrees to be bound by the provisions of the Credit Agreement and agrees that it shall, on the date of this Supplement, become a Lender for all purposes of the Credit Agreement to the same extent as if originally a party thereto, with a [Commitment with respect to Revolving Loans of $[__________]] [and] [a commitment with respect to Incremental Term Loans of $[__________]].

2. The undersigned Augmenting Lender (a) represents and warrants that it is legally authorized to enter into this Supplement; (b) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.01 thereof, as applicable, and has reviewed such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Supplement; (c) agrees that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement or any other instrument or document furnished pursuant hereto or thereto; (d) appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Credit Agreement or any other instrument or document furnished pursuant hereto or thereto as are delegated to the Administrative Agent by the terms thereof, together with such powers as are incidental thereto; and (e) agrees that it will be bound by the provisions of the Credit Agreement and will perform in accordance with its terms all the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender.

3. The undersigned's address for notices for the purposes of the Credit Agreement is as follows:

[___________]

4. The Borrower hereby represents and warrants that no Default or Event of Default has occurred and is continuing on and as of the date hereof.

5. Terms defined in the Credit Agreement shall have their defined meanings when used herein.

6. This Supplement shall be governed by, and construed in accordance with, the laws of the State of New York.

7. This Supplement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same document.

[remainder of this page intentionally left blank]

IN WITNESS WHEREOF, each of the undersigned has caused this Supplement to be executed and delivered by a duly authorized officer on the date first above written.

[INSERT NAME OF INCREASING LENDER]

By: ______________________________________
Name:
Title:

Accepted and agreed to as of the date first written above:

AMTRUST FINANCIAL SERVICES, INC.

By: ______________________________________
Name:
Title:

Acknowledged as of the date first written above:

JPMORGAN CHASE BANK, N.A.
as Administrative Agent

By: ______________________________________
Name:
Title:

EXHIBIT E

LIST OF CLOSING DOCUMENTS

AMTRUST FINANCIAL SERVICES, INC.

CREDIT FACILITIES

August 10, 2012

LIST OF CLOSING DOCUMENTS[4]

A. **LOAN DOCUMENTS**

1. Credit Agreement (the "Credit Agreement") by and among AmTrust Financial Services, Inc., a Delaware corporation (the "Borrower"), the institutions from time to time parties thereto as Lenders (the "Lenders") and JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent for itself and the other Lenders (the "Administrative Agent"), evidencing a revolving credit facility to the Borrower from the Lenders in an initial aggregate principal amount of $200,000,000.

SCHEDULES

Schedule 1.01(a) – ***Existing Regulated Insurance Companies***
Schedule 1.01(b) – ***Permitted Tax Incentive Financing Transactions***
Schedule 2.01 – Commitments
Schedule 2.06 – ***Existing Letters of Credit***
Schedule 3.15 – ***Subsidiaries***
Schedule 6.01 – ***Existing Indebtedness***
Schedule 6.02 – ***Existing Liens***
Schedule 6.04 – ***Existing Investments***
Schedule 6.08 – ***Transactions with Affiliates***
Schedule 6.09 – ***Restrictions***

EXHIBITS

Exhibit A – Form of Assignment and Assumption
Exhibit B – Form of Opinion of Borrower's Counsel
Exhibit C – Form of Increasing Lender Supplement
Exhibit D – Form of Augmenting Lender Supplement
Exhibit E – List of Closing Documents
Exhibit F-1 – Form of U.S. Tax Certificate (Non-U.S. Lenders That Are Not Partnerships)
Exhibit F-2 – Form of U.S. Tax Certificate (Non-U.S. Lenders That Are Partnerships)
Exhibit F-3 – Form of U.S. Tax Certificate (Non-U.S. Participants That Are Not Partnerships)
Exhibit F-4 – Form of U.S. Tax Certificate (Non-U.S. Participants That Are Partnerships)

2. Notes executed by the Borrower in favor of each of the Lenders, if any, which has requested a note pursuant to Section 2.10(e) of the Credit Agreement.

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[4] Each capitalized term used herein and not defined herein shall have the meaning assigned to such term in the above-defined Credit Agreement. Items appearing in **bold** and *italics* shall be prepared and/or provided by the Borrower and/or Borrower's counsel.

B. **CORPORATE DOCUMENTS**

3. ***Certificate of the Secretary or an Assistant Secretary of the Borrower certifying (i) that there have been no changes in the Certificate of Incorporation or other charter document of the Borrower, as attached thereto and as certified as of a recent date by the Secretary of State (or analogous governmental entity) of the jurisdiction of its organization, since the date of the certification thereof by such governmental entity, (ii) the By-Laws or other applicable organizational document, as attached thereto, of the Borrower as in effect on the date of such certification, (iii) resolutions of the Board of Directors or other governing body of the Borrower authorizing the execution, delivery and performance of each Loan Document to which it is a party, and (iv) the names and true signatures of the incumbent officers of the Borrower authorized to sign the Loan Documents, and authorized to request a Borrowing or the issuance of a Letter of Credit under the Credit Agreement.***

4. Good Standing Certificate for the Borrower from the Secretary of State of the jurisdiction of its organization.

C. **OPINIONS**

5. Opinion of Thompson Hine LLP, counsel for the Borrower.

D. **CLOSING CERTIFICATES AND MISCELLANEOUS**

6. A Certificate signed by the President, a Vice President or a Financial Officer of the Borrower certifying the following: (i) all of the representations and warranties of the Borrower set forth in the Credit Agreement are true and correct and (ii) no Default or Event of Default has occurred and is then continuing.

7. Termination Letter in respect of the Existing Credit Facility.

EXHIBIT F-1

FORM OF U.S. TAX CERTIFICATE

(For Non-U.S. Lenders That Are Not Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Credit Agreement dated as of August 10, 2012 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among AmTrust Financial Services, Inc. (the "Borrower"), the Lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the "Administrative Agent").

Pursuant to the provisions of Section 2.17 of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record and beneficial owner of the Loan(s) (as well as any note(s) evidencing such Loan(s)) in respect of which it is providing this certificate, (ii) it is not a bank within the meaning of Section 881(c)(3)(A) of the Code, (iii) it is not a ten percent shareholder of the Borrower within the meaning of Section 871(h)(3)(B) of the Code, (iv) it is not a controlled foreign corporation related to the Borrower as described in Section 881(c)(3)(C) of the Code and (v) the interest payments in question are not effectively connected with the undersigned's conduct of a U.S. trade or business.

The undersigned has furnished the Administrative Agent and the Borrower with a certificate of its non-U.S. person status on IRS Form W-8BEN. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform the Borrower and the Administrative Agent and (2) the undersigned shall have at all times furnished the Borrower and the Administrative Agent with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[NAME OF LENDER]

By: ___________________________________
Name:
Title:

Date: __________, 20[__]

EXHIBIT F-2

FORM OF U.S. TAX CERTIFICATE

(For Non-U.S. Lenders That Are Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Credit Agreement dated as of August 10, 2012 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among AmTrust Financial Services, Inc. (the "Borrower"), the Lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the "Administrative Agent").

Pursuant to the provisions of Section 2.17 of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record owner of the Loan(s) (as well as any note(s) evidencing such Loan(s)) in respect of which it is providing this certificate, (ii) its partners/members are the sole beneficial owners of such Loan(s) (as well as any note(s) evidencing such Loan(s)), (iii) with respect to the extension of credit pursuant to this Credit Agreement, neither the undersigned nor any of its partners/members is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business within the meaning of Section 881(c)(3)(A) of the Code, (iv) none of its partners/members is a ten percent shareholder of the Borrower within the meaning of Section 871(h)(3)(B) of the Code, (v) none of its partners/members is a controlled foreign corporation related to the Borrower as described in Section 881(c)(3)(C) of the Code, and (vi) the interest payments in question are not effectively connected with the undersigned's or its partners/members' conduct of a U.S. trade or business.

The undersigned has furnished the Administrative Agent and the Borrower with IRS Form W-8IMY accompanied by an IRS Form W-8BEN from each of its partners/members claiming the portfolio interest exemption. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform the Borrower and the Administrative Agent and (2) the undersigned shall have at all times furnished the Borrower and the Administrative Agent with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[NAME OF LENDER]

By: ____________________________________
Name:
Title:

Date: __________, 20[__]

EXHIBIT F-3

FORM OF U.S. TAX CERTIFICATE

(For Non-U.S. Participants That Are Not Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Credit Agreement dated as of August 10, 2012 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among AmTrust Financial Services, Inc. (the "Borrower"), the Lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the "Administrative Agent").

Pursuant to the provisions of Section 2.17 of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record and beneficial owner of the participation in respect of which it is providing this certificate, (ii) it is not a bank within the meaning of Section 881(c)(3)(A) of the Code, (iii) it is not a ten percent shareholder of the Borrower within the meaning of Section 871(h)(3)(B) of the Code, (iv) it is not a controlled foreign corporation related to the Borrower as described in Section 881(c)(3)(C) of the Code, and (v) the interest payments in question are not effectively connected with the undersigned's conduct of a U.S. trade or business.

The undersigned has furnished its participating Lender with a certificate of its non-U.S. person status on IRS Form W-8BEN. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform such Lender in writing and (2) the undersigned shall have at all times furnished such Lender with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[NAME OF LENDER]

By: ____________________________________
Name:
Title:

Date: __________, 20[__]

EXHIBIT F-4

FORM OF U.S. TAX CERTIFICATE

(For Non-U.S. Participants That Are Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Credit Agreement dated as of August 10, 2012 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among AmTrust Financial Services, Inc. (the "Borrower"), the Lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the "Administrative Agent").

Pursuant to the provisions of Section 2.17 of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record owner of the participation in respect of which it is providing this certificate, (ii) its partners/members are the sole beneficial owners of such participation, (iii) with respect such participation, neither the undersigned nor any of its partners/members is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business within the meaning of Section 881(c)(3)(A) of the Code, (iv) none of its partners/members is a ten percent shareholder of the Borrower within the meaning of Section 871(h)(3)(B) of the Code, (v) none of its partners/members is a controlled foreign corporation related to the Borrower as described in Section 881(c)(3)(C) of the Code, and (vi) the interest payments in question are not effectively connected with the undersigned's or its partners/members' conduct of a U.S. trade or business.

The undersigned has furnished its participating Lender with IRS Form W-8IMY accompanied by an IRS Form W-8BEN from each of its partners/members claiming the portfolio interest exemption. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform such Lender and (2) the undersigned shall have at all times furnished such Lender with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[NAME OF LENDER]

By: ___________________________________
Name:
Title:

Date: __________, 20[__]

UCAA Proforma Financial Statements
Property and Casualty Insurance Company

UNIFORM CERTIFICATE OF AUTHORITY APPLICATION

Instructions

1. Enter the Company Name below
2. Enter the first full year of the proformas (the first full year of operation).
3. Select the states to be completed for proformas by clicking the check boxes on the right and then click on the "Create Selected State Worksheets" button below.
4. Complete all sections of the proforma statements contained on each tab below.
5. Note that several tabs contain worksheets for 3 years of data. Be sure to complete all years of data.
6. Do not "Cut" and "Paste" cells in the worksheets. Use "Copy" and "Paste" instead.

Enter the Company Name:

Developers Surety and Indemnity Company

Year 1: 2013

Year 2: 2014

Year 3: 2015

	Code	State			Code	State	
☐	AK	Alaska	Go to AK	☐	MT	Montana	Go to MT
☐	AL	Alabama	Go to AL	☐	NC	North Carolina	Go to NC
☐	AR	Arkansas	Go to AR	☐	ND	North Dakota	Go to ND
☐	AS	American Samoa		☐	NE	Nebraska	Go to NE
☐	AZ	Arizona	Go to AZ	☐	NH	New Hampshire	Go to NH
☐	CA	California	Go to CA	☐	NJ	New Jersey	Go to NJ
☐	CO	Colorado	Go to CO	☐	NM	New Mexico	Go to NM
☐	CT	Connecticut	Go to CT	☐	NV	Nevada	Go to NV
☐	DC	District Of Columbia	Go to DC	☐	NY	New York	Go to NY
☐	DE	Delaware	Go to DE	☐	OH	Ohio	Go to OH
☐	FL	Florida	Go to FL	☐	OK	Oklahoma	Go to OK
☐	GA	Georgia	Go to GA	☐	OR	Oregon	Go to OR
☐	GU	Guam		☐	PA	Pennsylvania	Go to PA
☐	HI	Hawaii	Go to HI	☐	PR	Puerto Rico	
☐	IA	Iowa	Go to IA	☐	RI	Rhode Island	Go to RI
☐	ID	Idaho	Go to ID	☐	SC	South Carolina	Go to SC
☐	IL	Illinois	Go to IL	☐	SD	South Dakota	Go to SD
☐	IN	Indiana	Go to IN	☐	TN	Tennessee	Go to TN
☐	KS	Kansas	Go to KS	☐	TX	Texas	Go to TX
☐	KY	Kentucky	Go to KY	☐	UT	Utah	Go to UT
☐	LA	Louisiana	Go to LA	☐	VA	Virginia	Go to VA
☐	MA	Massachusetts	Go to MA	☐	VI	U.S. Virgin Islands	
☐	MD	Maryland	Go to MD	☐	VT	Vermont	Go to VT
☐	ME	Maine	Go to ME	☐	WA	Washington	Go to WA
☐	MI	Michigan	Go to MI	☐	WI	Wisconsin	Go to WI
☐	MN	Minnesota	Go to MN	☐	WV	West Virginia	Go to WV
☐	MO	Missouri	Go to MO	☐	WY	Wyoming	Go to WY
☐	MS	Mississippi	Go to MS				

If states were added to this spreadsheet in error:
1. Select the states to be deleted by clicking the check boxes on the right.
2. Click on the "Delete Selected State Worksheets" button above.

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Pro Forma Statutory Balance Sheet
(In Thousands)

	2013	2014	2015
Admitted Assets			
-------------------			
1. Bonds	60,715	59,307	60,168
2. Common Stock	19,676	19,394	19,567
3. Real Estate/Mortgage Loans	-	-	-
4. Affiliated Investments	19,379	19,979	20,608
5. Affiliated Receivables	300	300	300
6. Cash/Cash Equivalents	10,027	27	142
7. All assets other than investments	9,050	10,644	11,672
8. Total Admitted Assets	119,147	109,652	112,458
Liabilities			
-------------------			
9. Losses (Case & IBNR)	7,309	5,449	4,477
10. Loss Adjustment Expenses	6,931	4,463	3,869
11. Unearned Premiums	23,227	3,043	3,613
12. Ceded Reinsurance Payable	853	853	853
13. Payable to Parents, Subsidiaries & Affiliates	-	21,692	21,692
14. All Other Liabilities	6,335	6,574	6,766
15. Total Liabilities(9+10+11+12+13+14)	44,655	42,074	41,270
Capital and Surplus			
-------------------			
16. Capital Stock	3,000	3,000	3,000
17. Gross Paid in and Contributed Surplus	11,995	11,995	11,995
18. Surplus Notes	-	-	-
19. Unassigned Surplus	59,497	52,584	56,193
20. Other Items(elaborate)			
21. Total Capital and Surplus(16+17+18+19+20)	74,492	67,578	71,188

Risk-Based Capital Analysis

22. Authorized Control Level Risk-Based Capital	6,959	6,313	6,651
23. Calculated Risk-Based Capital (21/22)	**1070%**	**1070%**	**1070%**

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Pro Forma Statutory Profit & Loss Statement
(In Thousands)

	2013	2014	2015
1. Net Premiums Earned	38,474	5,530	6,842
2. Net Losses Incurred (Case & IBNR)	6,243	1,025	1,255
3. Net Loss Adjustment Expenses Incurred	5,986	1,043	1,212
4. Direct and Assumed Commissions & Brokerage	12,199	16,998	20,043
5. Reinsurance Ceding Commissions	245	15,317	18,061
6. Net Commissions Incurred (4-5)	11,954	1,680	1,982
7. Other Contractual Agreements*	-	-	-
8. Other Underwriting Expenses Incurred**	14,760	1,545	1,402
9. Underwriting Gain (Loss) (1-(2+3+6+7+8))	**(469)**	**237**	**991**
10. Net Investment Income	3,067	3,216	3,148
11. Other Income	-		
12. Income Taxes Incurred	728	967	1,159
13. Net Operating Income (Loss) after taxes	**1,871**	**2,486**	**2,980**
14. Prior YE Surplus	74,531	74,492	67,578
15. Net Income	1,871	2,486	2,980
16. Capital Increases	1,090	600	629
17. Other Increases (Decreases)		(10,000)	
18. Dividends to Stockholders	3,000		
19. YE Surplus	74,492	67,578	71,188
Operating Percentages:			
Net Premiums Earned	100.00%	100.00%	100.00%
20. Net Losses Incurred to Net Premiums Earned(2/1)	16.23%	18.53%	18.34%
21. Net Loss Adjustment Expenses Incurred to Net Premiums Earned(3/1)	15.56%	18.85%	17.72%
22. Other Underwriting Expenses to Net Premiums Earned ((6+7+8)/1)	69.43%	58.33%	49.46%
23. Net Underwriting Gain Or (Loss) (9/1)	-1.22%	4.29%	14.48%
Other Percentages:			
24. Other Underwriting Expenses to Net Premiums Written ((6+7+8)/Total Net Premiums Written))	62.11%	51.61%	45.65%
25. Net Loss and Loss Adjustment Expenses Incurred to Net Premiums Earned ((2+3)/1)	31.79%	37.38%	36.06%

*ie... MGA(excluding amounts included above as agents commissions), service contracts, claims payment contracts
** **Itemize in assumptions**

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Pro Forma Statutory Cash Flow Statement
(In Thousands)

	2013	2014	2015
Cash From Operations			
1. Premiums Collected Net of Reinsurance	42,213	4,656	6,386
2. Loss and Loss Adjustments Expenses Paid (Net of S&S)	15,918	5,608	4,034
3. Underwriting Expenses Paid	26,713	3,226	3,384
4. Other Underwriting Income(expenses)			
5. Total Cash From Underwriting(1-2-3+4)	**(418)**	**(4,177)**	**(1,033)**
6. Net Investment Income	3,067	3,216	3,148
7. Other Income			
8. Dividends to Policyholders	-		
9. Federal and Foreign Income Taxes (Paid) Recovered	1,484	(728)	(967)
10. Net Cash From Operations(5+6+7-8+9)	**4,132**	**(1,689)**	**1,148**
Cash From Investments			
11. Net Cash from Investments	**(3,719)**	**1,689**	**(1,034)**
Cash From Financing and Misc Sources			
12. Capital and Paid in Surplus			
13. Surplus Notes		(10,000)	
14. Borrowed Funds			
15. Dividends	3,000		
16. Other Cash Provided (applied)	237		
17. Net Cash from Financing and Misc. Sources	(2,763)	(10,000)	-
18. Net Change in Cash, Cash Equivalents and Short-Term Investments(10+11+17)	(2,349)	(10,000)	115

Nationwide

Company Name: Developers Surety and Indemnity Compa
(Property & Casualty Insurance Company)
Premiums Written to Surplus Ratios
Amounts in Whole Dollars

Year	Direct Premiums Written	Assumed Premiums Written	Gross Premiums Written	Ceded Premiums Written	Net Premiums Written	Gross Written Premiums to Surplus	Net Written Premiums to Surplus
	---------	---------	---------	---------	---------	---------	---------
2013	44,559,863	2,788,536	47,348,399	4,338,481	43,009,918	63.6%	57.7%
2014	60,500,000	6,000,000	66,500,000	60,249,750	6,250,250	98.4%	9.2%
2015	70,775,000	8,000,000	78,775,000	71,361,813	7,413,188	110.7%	10.4%

No data entry is required on this page.

Nationwide

Year 1 2013

Company Name: Developers Surety and Indemnity Company

(Property & Casualty Insurance Company)
Planned Premium Volume By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	Direct Premiums Written	Assumed Premiums Written	Ceded Premiums Written	Net Premiums Written	Direct Premiums Earned	Assumed Premiums Earned	Ceded Premiums Earned	Net Premiums Earned
1.0	Fire				-				-
2.1	Allied Lines				-				-
2.2	Multiple Peril Crop				-				-
2.3	Federal Flood				-				-
3.0	Farmowners Multiple Peril				-				-
4.0	Homeowners Multiple Peril				-				-
5.1	Commercial Multiple Peril (Non-Liability Portion)				-				-
5.2	Commercial Multiple Peril (Liability Portion)				-				-
6.0	Mortgage Guaranty				-				-
8.0	Ocean Marine				-				-
9.0	Inland Marine	150,000	-	3,000	147,000	135,000	-	3,000	132,000
10.0	Financial Guaranty				-				-
11.1	Medical Professional Liability - Occurrence				-				-
11.2	Medical Professional Liability - Claims Made				-				-
12.0	Earthquake				-				-
13.0	Group A&H				-				-
14.0	Credit A&H (Group & Individual)				-				-
15.1	Collectively Renewable A&H				-				-
15.2	Non-Cancellable A&H				-				-
15.3	Guaranteed Renewable A&H				-				-
15.4	Non-Renew-Stated Reasons Only A&H				-				-
15.5	Other Accident Only				-				-
15.6	Medicare Title XVII exempt from state taxes or fees				-				-
15.7	All Other A&H				-				-
15.8	Federal Employees Health Benefits Program				-				-
16.0	Workers' Compensation				-				-
17.1	Other Liability	9,873,387	2,788,536	1,221,399	11,440,524	7,617,246	855,733	1,221,445	7,251,533
17.3	Excess Workers Compensation				-				-
18.1	Products Liability - Occurrence				-				-
18.2	Products Liability - Claims Made				-				-
19.1	Private Passenger Auto No-Fault (PIP)				-				-
19.2	Other Private Passenger Auto Liability				-				-
19.3	Commercial Auto No-Fault (PIP)				-				-
19.4	Other Commercial Auto Liability				-				-
21.1	Private Passenger Auto Phys Damage				-				-
21.2	Commercial Auto Physical Damage				-				-
22.0	Aircraft (All Perils)				-				-
23.0	Fidelity				-				-
24.0	Surety	34,536,476	-	3,114,082	31,422,394	34,105,691	-	3,015,239	31,090,452
26.0	Burglary and Theft				-				-
27.0	Boiler and Machinery				-				-
28.0	Credit				-				-
28.0	Credit Disability				-				-
30.0	Warranty				-				-
34.0	Prepaid Legal				-				-
34.0	Bail Bonds				-				-
34.0	Glass				-				-
34.0	Title				-				-
34.0	Livestock				-				-
34.0	Industrial Extended Coverage				-				-
34.0	Mobile Home Multiple Peril				-				-
34.0	Mobile Home Physical Damage				-				-
34.0	Reinsurance				-				-
34.0	Other - Property				-				-
34.0	Other - Casualty				-				-
34.0	Other				-				-
	Total	44,559,863	2,788,536	4,338,481	43,009,918	41,857,937	855,733	4,239,684	38,473,985

Nationwide

Year 2 **2014**

Company Name: **Developers Surety and Indemnity Company**

(Property & Casualty Insurance Company)

Planned Premium Volume By Line of Business

Amounts in Whole Dollars

Annual Statement Line	Description	Direct Premiums Written	Assumed Premiums Written	Ceded Premiums Written	Net Premiums Written	Direct Premiums Earned	Assumed Premiums Earned	Ceded Premiums Earned	Net Premiums Earned
1.0	Fire				-				-
2.1	Allied Lines				-				-
2.2	Multiple Peril Crop				-				-
2.3	Federal Flood				-				-
3.0	Farmowners Multiple Peril				-				-
4.0	Homeowners Multiple Peril				-				-
5.1	Commercial Multiple Peril (Non-Liability Portion)				-				-
5.2	Commercial Multiple Peril (Liability Portion)				-				-
6.0	Mortgage Guaranty				-				-
8.0	Ocean Marine				-				-
9.0	Inland Marine	200,000	-	180,400	19,600	139,642	-	126,038	13,604
10.0	Financial Guaranty				-				-
11.1	Medical Professional Liability - Occurrence				-				-
11.2	Medical Professional Liability - Claims Made				-				-
12.0	Earthquake				-				-
13.0	Group A&H				-				-
14.0	Credit A&H (Group & Individual)				-				-
15.1	Collectively Renewable A&H				-				-
15.2	Non-Cancellable A&H				-				-
15.3	Guaranteed Renewable A&H				-				-
15.4	Non-Renew-Stated Reasons Only A&H				-				-
15.5	Other Accident Only				-				-
15.6	Medicare Title XVII exempt from state taxes or fees				-				-
15.7	All Other A&H				-				-
15.8	Federal Employees Health Benefits Program				-				-
16.0	Workers' Compensation				-				-
17.1	Other Liability	11,800,000	6,000,000	16,055,600	1,744,400	11,967,689	4,932,803	15,242,483	1,658,009
17.3	Excess Workers Compensation				-				-
18.1	Products Liability - Occurrence				-				-
18.2	Products Liability - Claims Made				-				-
19.1	Private Passenger Auto No-Fault (PIP)				-				-
19.2	Other Private Passenger Auto Liability				-				-
19.3	Commercial Auto No-Fault (PIP)				-				-
19.4	Other Commercial Auto Liability				-				-
21.1	Private Passenger Auto Phys Damage				-				-
21.2	Commercial Auto Physical Damage				-				-
22.0	Aircraft (All Perils)				-				-
23.0	Fidelity				-				-
24.0	Surety	48,500,000	-	44,013,750	4,486,250	42,174,556	-	38,315,718	3,858,838
26.0	Burglary and Theft				-				-
27.0	Boiler and Machinery				-				-
28.0	Credit				-				-
28.0	Credit Disability				-				-
30.0	Warranty				-				-
34.0	Prepaid Legal				-				-
34.0	Bail Bonds				-				-
34.0	Glass				-				-
34.0	Title				-				-
34.0	Livestock				-				-
34.0	Industrial Extended Coverage				-				-
34.0	Mobile Home Multiple Peril				-				-
34.0	Mobile Home Physical Damage				-				-
34.0	Reinsurance				-				-
34.0	Other - Property				-				-
34.0	Other - Casualty				-				-
34.0	Other				-				-
	Total	60,500,000	6,000,000	60,249,750	6,250,250	54,281,888	4,932,803	53,684,239	5,530,452

Nationwide
Year 3 2015

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Planned Premium Volume By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	Direct Premiums Written	Assumed Premiums Written	Ceded Premiums Written	Net Premiums Written	Direct Premiums Earned	Assumed Premiums Earned	Ceded Premiums Earned	Net Premiums Earned
1.0	Fire				-				-
2.1	Allied Lines				-				-
2.2	Multiple Peril Crop				-				-
2.3	Federal Flood				-				-
3.0	Farmowners Multiple Peril				-				-
4.0	Homeowners Multiple Peril				-				-
5.1	Commercial Multiple Peril (Non-Liability Portion)				-				-
5.2	Commercial Multiple Peril (Liability Portion)				-				-
6.0	Mortgage Guaranty				-				-
8.0	Ocean Marine				-				-
9.0	Inland Marine	250,000	-	225,500	24,500	225,000	-	202,990	22,010
10.0	Financial Guaranty				-				-
11.1	Medical Professional Liability - Occurrence				-				-
11.2	Medical Professional Liability - Claims Made				-				-
12.0	Earthquake				-				-
13.0	Group A&H				-				-
14.0	Credit A&H (Group & Individual)				-				-
15.1	Collectively Renewable A&H				-				-
15.2	Non-Cancellable A&H				-				-
15.3	Guaranteed Renewable A&H				-				-
15.4	Non-Renew-Stated Reasons Only A&H				-				-
15.5	Other Accident Only				-				-
15.6	Medicare Title XVII exempt from state taxes or fees				-				-
15.7	All Other A&H				-				-
15.8	Federal Employees Health Benefits Program				-				-
16.0	Workers' Compensation				-				-
17.1	Other Liability	14,750,000	8,000,000	20,520,500	2,229,500	13,275,000	7,000,000	18,292,010	1,982,990
17.3	Excess Workers Compensation				-				-
18.1	Products Liability - Occurrence				-				-
18.2	Products Liability - Claims Made				-				-
19.1	Private Passenger Auto No-Fault (PIP)				-				-
19.2	Other Private Passenger Auto Liability				-				-
19.3	Commercial Auto No-Fault (PIP)				-				-
19.4	Other Commercial Auto Liability				-				-
21.1	Private Passenger Auto Phys Damage				-				-
21.2	Commercial Auto Physical Damage				-				-
22.0	Aircraft (All Perils)				-				-
23.0	Fidelity				-				-
24.0	Surety	55,775,000	-	50,615,813	5,159,188	52,501,250	-	47,663,981	4,837,269
26.0	Burglary and Theft				-				-
27.0	Boiler and Machinery				-				-
28.0	Credit				-				-
28.0	Credit Disability				-				-
30.0	Warranty				-				-
34.0	Prepaid Legal				-				-
34.0	Bail Bonds				-				-
34.0	Glass				-				-
34.0	Title				-				-
34.0	Livestock				-				-
34.0	Industrial Extended Coverage				-				-
34.0	Mobile Home Multiple Peril				-				-
34.0	Mobile Home Physical Damage				-				-
34.0	Reinsurance				-				-
34.0	Other - Property				-				-
34.0	Other - Casualty				-				-
34.0	Other				-				-
	Total	70,775,000	8,000,000	71,361,813	7,413,188	66,001,250	7,000,000	66,158,981	6,842,269

Nationwide
Year 1 2013

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Incurred Loss Summary By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	Direct Losses Incurred*	Assumed Losses Incurred*	Ceded Losses Incurred*	Net Losses Incurred*
---------	----------------------------------	---------	---------	---------	---------
1.0	Fire				-
2.0	Allied Lines				-
2.2	Multiple Peril Crop				-
2.3	Federal Flood				-
3.0	Farmowners Multiple Peril				-
4.0	Homeowners Multiple Peril				-
5.1	Commercial Multiple Peril (Non-Liability Portion)				-
5.2	Commercial Multiple Peril (Liability Portion)				-
6.0	Mortgage Guaranty				-
8.0	Ocean Marine				-
9.0	Inland Marine	16,825	-	364	16,461
10.0	Financial Guaranty				-
11.1	Medical Professional Liability - Occurrence				-
11.2	Medical Professional Liability - Claims Made				-
12.0	Earthquake				-
13.0	Group A&H				-
14.0	Credit A&H (Group & Individual)				-
15.1	Collectively Renewable A&H				-
15.2	Non-Cancellable A&H				-
15.3	Guaranteed Renewable A&H				-
15.4	Non-Renew - Stated Reasons Only A&H				-
15.5	Other Accident Only				-
15.6	Medicare Title XVII exempt from state taxes or fees				-
15.7	All Other A&H				-
15.8	Federal Employees Health Benefits Program				-
16.0	Workers' Compensation				-
17.1	Other Liability	5,332,775	564,717	806,059	5,091,433
17.3	Excess Workers Compensation				-
18.1	Products Liability - Occurrence				-
18.2	Products Liability - Claims Made				-
19.1	Private Passenger Auto No-Fault (PIP)				-
19.2	Other Private Passenger Auto Liability				-
19.3	Commercial Auto No-Fault (PIP)				-
19.4	Other Commercial Auto Liability				-
21.1	Private Passenger Auto Phys Damage				-
21.2	Commercial Auto Physical Damage				-
22.0	Aircraft (All Perils)				-
23.0	Fidelity				-
24.0	Surety	7,662,187	-	541,014	7,121,173
26.0	Burglary and Theft				-
27.0	Boiler and Machinery				-
28.0	Credit				-
28.0	Credit Disability				-
30.0	Warranty				-
34.0	Prepaid Legal				-
34.0	Bail Bonds				-
34.0	Glass				-
34.0	Title				-
34.0	Livestock				-
34.0	Industrial Extended Coverage				-
34.0	Mobile Home Multiple Peril				-
34.0	Mobile Home Physical Damage				-
34.0	Reinsurance				-
34.0	Other				-
34.0	Other				-
34.0	Other				-
	Total	13,011,787	564,717	1,347,436	12,229,068
	Verification from P & L	=========	=========	=========	12,229,068

* Include loss adjustment expenses.

Nationwide
Year 2 2014

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Incurred Loss Summary By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	Direct Losses Incurred*	Assumed Losses Incurred*	Ceded Losses Incurred*	Net Losses Incurred*
1.0	Fire				-
2.0	Allied Lines				-
2.2	Multiple Peril Crop				-
2.3	Federal Flood				-
3.0	Farmowners Multiple Peril				-
4.0	Homeowners Multiple Peril				-
5.1	Commercial Multiple Peril (Non-Liability Portion)				-
5.2	Commercial Multiple Peril (Liability Portion)				-
6.0	Mortgage Guaranty				-
8.0	Ocean Marine				-
9.0	Inland Marine	80,550	-	72,693	7,857
10.0	Financial Guaranty				-
11.1	Medical Professional Liability - Occurrence				-
11.2	Medical Professional Liability - Claims Made				-
12.0	Earthquake				-
13.0	Group A&H				-
14.0	Credit A&H (Group & Individual)				-
15.1	Collectively Renewable A&H				-
15.2	Non-Cancellable A&H				-
15.3	Guaranteed Renewable A&H				-
15.4	Non-Renew - Stated Reasons Only A&H				-
15.5	Other Accident Only				-
15.6	Medicare Title XVII exempt from state taxes or fees				-
15.7	All Other A&H				-
15.8	Federal Employees Health Benefits Program				-
16.0	Workers' Compensation				-
17.1	Other Liability	7,197,994	2,713,042	8,937,554	973,482
17.3	Excess Workers Compensation				-
18.1	Products Liability - Occurrence				-
18.2	Products Liability - Claims Made				-
19.1	Private Passenger Auto No-Fault (PIP)				-
19.2	Other Private Passenger Auto Liability				-
19.3	Commercial Auto No-Fault (PIP)				-
19.4	Other Commercial Auto Liability				-
21.1	Private Passenger Auto Phys Damage				-
21.2	Commercial Auto Physical Damage				-
22.0	Aircraft (All Perils)				-
23.0	Fidelity				-
24.0	Surety	10,940,362	-	9,854,395	1,085,967
26.0	Burglary and Theft				-
27.0	Boiler and Machinery				-
28.0	Credit				-
28.0	Credit Disability				-
30.0	Warranty				-
34.0	Prepaid Legal				-
34.0	Bail Bonds				-
34.0	Glass				-
34.0	Title				-
34.0	Livestock				-
34.0	Industrial Extended Coverage				-
34.0	Mobile Home Multiple Peril				-
34.0	Mobile Home Physical Damage				-
34.0	Reinsurance				-
34.0	Other				-
34.0	Other				-
34.0	Other				-
	Total	18,218,906	2,713,042	18,864,642	2,067,306
	Verification from P & L	=========	=========	=========	2,067,306

* Include loss adjustment expenses.

Nationwide
Year 3 2015

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Incurred Loss Summary By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	Direct Losses Incurred*	Assumed Losses Incurred*	Ceded Losses Incurred*	Net Losses Incurred*
---------	---------------------------------	---------	---------	---------	---------
1.0	Fire				-
2.0	Allied Lines				-
2.2	Multiple Peril Crop				-
2.3	Federal Flood				-
3.0	Farmowners Multiple Peril				-
4.0	Homeowners Multiple Peril				-
5.1	Commercial Multiple Peril (Non-Liability Portion)				-
5.2	Commercial Multiple Peril (Liability Portion)				-
6.0	Mortgage Guaranty				-
8.0	Ocean Marine				-
9.0	Inland Marine	129,416	-	116,744	12,672
10.0	Financial Guaranty				-
11.1	Medical Professional Liability - Occurrence				-
11.2	Medical Professional Liability - Claims Made				-
12.0	Earthquake				-
13.0	Group A&H				-
14.0	Credit A&H (Group & Individual)				-
15.1	Collectively Renewable A&H				-
15.2	Non-Cancellable A&H				-
15.3	Guaranteed Renewable A&H				-
15.4	Non-Renew - Stated Reasons Only A&H				-
15.5	Other Accident Only				-
15.6	Medicare Title XVII exempt from state taxes or fees				-
15.7	All Other A&H				-
15.8	Federal Employees Health Benefits Program				-
16.0	Workers' Compensation				-
17.1	Other Liability	7,937,320	3,850,000	10,633,068	1,154,251
17.3	Excess Workers Compensation				-
18.1	Products Liability - Occurrence				-
18.2	Products Liability - Claims Made				-
19.1	Private Passenger Auto No-Fault (PIP)				-
19.2	Other Private Passenger Auto Liability				-
19.3	Commercial Auto No-Fault (PIP)				-
19.4	Other Commercial Auto Liability				-
21.1	Private Passenger Auto Phys Damage				-
21.2	Commercial Auto Physical Damage				-
22.0	Aircraft (All Perils)				-
23.0	Fidelity				-
24.0	Surety	13,097,870	-	11,797,372	1,300,498
26.0	Burglary and Theft				-
27.0	Boiler and Machinery				-
28.0	Credit				-
28.0	Credit Disability				-
30.0	Warranty				-
34.0	Prepaid Legal				-
34.0	Bail Bonds				-
34.0	Glass				-
34.0	Title				-
34.0	Livestock				-
34.0	Industrial Extended Coverage				-
34.0	Mobile Home Multiple Peril				-
34.0	Mobile Home Physical Damage				-
34.0	Reinsurance				-
34.0	Other				-
34.0	Other				-
34.0	Other				-
	Total	21,164,605	3,850,000	22,547,184	2,467,421
	Verification from P & L	=========	=========	=========	2,467,421

* Include loss adjustment expenses.

Nationwide

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Net Premium and Loss Developments By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	2013 Premiums Earned	2013 Losses Incurred*	2013 Loss Ratio	2014 Premiums Earned	2014 Losses Incurred*	2014 Loss Ratio	2015 Premiums Earned	2015 Losses Incurred*	2015 Loss Ratio
1.0	Fire	-	-	-	-	-	-	-	-	-
2.1	Allied Lines	-	-	-	-	-	-	-	-	-
2.2	Multiple Peril Crop	-	-	-	-	-	-	-	-	-
2.3	Federal Flood	-	-	-	-	-	-	-	-	-
3.0	Farmowners Multiple Peril	-	-	-	-	-	-	-	-	-
4.0	Homeowners Multiple Peril	-	-	-	-	-	-	-	-	-
5.1	Commercial Multiple Peril (Non-Liability Portion)	-	-	-	-	-	-	-	-	-
5.2	Commercial Mutiple Peril (Liability Portion)	-	-	-	-	-	-	-	-	-
6.0	Mortgage Guaranty	-	-	-	-	-	-	-	-	-
8.0	Ocean Marine	-	-	-	-	-	-	-	-	-
9.0	Inland Marine	132,000	16,461	12%	13,604	7,857	58%	22,010	12,672	58%
10.0	Financial Guaranty	-	-	-	-	-	-	-	-	-
11.1	Medical Professional Liability - Occurrence	-	-	-	-	-	-	-	-	-
11.2	Medical Professional Liability - Claims Made	-	-	-	-	-	-	-	-	-
12.0	Earthquake	-	-	-	-	-	-	-	-	-
13.0	Group A&H	-	-	-	-	-	-	-	-	-
14.0	Credit A&H (Group & Individual)	-	-	-	-	-	-	-	-	-
15.1	Collectively Renewable A&H	-	-	-	-	-	-	-	-	-
15.2	Non-Cancellable A&H	-	-	-	-	-	-	-	-	-
15.3	Guaranteed Renewable A&H	-	-	-	-	-	-	-	-	-
15.4	Non-Renew-Stated Reasons Only A&H	-	-	-	-	-	-	-	-	-
15.5	Other Accident Only	-	-	-	-	-	-	-	-	-
15.6	Medicare Title XVII exempt from state taxes or fees	-	-	-	-	-	-	-	-	-
15.7	All Other A&H	-	-	-	-	-	-	-	-	-
15.8	Federal Employees Health Benefits Program	-	-	-	-	-	-	-	-	-
16.0	Workers' Compensation	-	-	-	-	-	-	-	-	-
17.1	Other Liability	7,251,533	5,091,433	70%	1,658,009	973,482	59%	1,982,990	1,154,251	58%
17.3	Excess Workers Compensation	-	-	-	-	-	-	-	-	-
18.1	Products Liability - Occurrence	-	-	-	-	-	-	-	-	-
18.2	Products Liability - Claims Made	-	-	-	-	-	-	-	-	-
19.1	Private Passenger Auto No-Fault (PIP)	-	-	-	-	-	-	-	-	-
19.2	Other Private Passenger Auto Liability	-	-	-	-	-	-	-	-	-
19.3	Commercial Auto No-Fault (PIP)	-	-	-	-	-	-	-	-	-
19.4	Other Commercial Auto Liability	-	-	-	-	-	-	-	-	-
21.1	Private Passenger Auto Phys Damage	-	-	-	-	-	-	-	-	-
21.2	Commercial Auto Physical Damage	-	-	-	-	-	-	-	-	-
22.0	Aircraft (All Perils)	-	-	-	-	-	-	-	-	-
23.0	Fidelity	-	-	-	-	-	-	-	-	-
24.0	Surety	31,090,452	7,121,173	23%	3,858,838	1,085,967	28%	4,837,269	1,300,498	27%
26.0	Burglary and Theft	-	-	-	-	-	-	-	-	-
27.0	Boiler and Machinery	-	-	-	-	-	-	-	-	-
28.0	Credit	-	-	-	-	-	-	-	-	-
28.0	Credit Disability	-	-	-	-	-	-	-	-	-
30.0	Warranty	-	-	-	-	-	-	-	-	-
34.0	Prepaid Legal	-	-	-	-	-	-	-	-	-
34.0	Bail Bonds	-	-	-	-	-	-	-	-	-
34.0	Glass	-	-	-	-	-	-	-	-	-
34.0	Title	-	-	-	-	-	-	-	-	-
34.0	Livestock	-	-	-	-	-	-	-	-	-
34.0	Industrial Extended Coverage	-	-	-	-	-	-	-	-	-
34.0	Mobile Home Multiple Peril	-	-	-	-	-	-	-	-	-
34.0	Mobile Home Physical Damage	-	-	-	-	-	-	-	-	-
34.0	Reinsurance	-	-	-	-	-	-	-	-	-
34.0	Other	-	-	-	-	-	-	-	-	-
34.0	Other	-	-	-	-	-	-	-	-	-
34.0	Other	-	-	-	-	-	-	-	-	-
	Total	38,473,985	12,229,068	32%	5,530,452	2,067,306	37%	6,842,269	2,467,421	36%
	Verification from P & L - should equal line above.	38,473,985	12,229,068		5,530,452	2,067,306		6,842,269	2,467,421	

* Include loss adjustment expenses.

UCAA Proforma Financial Statements
Assumptions

excluded amounts
assumptions need to be the same on Group, DSI and ICC
assumptions provided by AmTrust

List all of the relevant assumptions used to create the proformas.
Note: assumptions enclosed within the Plan of Operation need not be disclosed again here.

	2012	2013	2014	2015
Investment Yield		4.00%	4.00%	4.00%
Federal Tax Rate		28%	28%	28%
Authorized Control Level Risk Based Capital	6,362,941	6,959,255	6,313,383	6,650,578
percent of new cash invested in bonds		75%	75%	75%
percent of new cash invested in stocks		15%	15%	15%
percent of new cash remaining in cash		10%	10%	10%

	Surety 2012	Surety 2013	Surety 2014	Surety 2015	Liability 2012	Liability 2013	Liability 2014	Liability 2015	Inland Marine 2012	Inland Marine 2013	Inland Marine 2014	Inland Marine 2015	All Lines 2012	All Lines 2013	All Lines 2014	All Lines 2015
Direct Loss Ratio to Earned		12.36%	13.50%	13.50%		32.90%	27.50%	27.50%		11.30%	27.50%	27.50%		16.09%	16.62%	15.36%
Direct Assumed Ratio to Earned		-	13.50%	13.50%		32.90%	27.50%	27.50%		-	27.50%	27.50%		32.90%	27.50%	27.50%
External Ceded Loss Ratio to Earned		12.36%	1.25%	1.25%		32.90%	27.50%	27.50%		11.30%	27.50%	27.50%		18.[illegible]%	3.43%	3.84%
Quota Share Loss Ratio to Earned		-								-	-	-		-	18.57%	18.34%
Total Ceded Loss Ratio to Earned		12.36%	1.25%	1.25%		32.90%	27.50%	27.50%		11.30%	27.50%	27.50%		18.[illegible]%	17.43%	17.34%
Net Loss Ratio to Earned	15.40%	12.30%	14.04%	14.55%	19.40%	32.00%	27.50%	27.50%	221.27%	11.30%	27.50%	27.50%	15.84%	16.27%	18.53%	18.74%
Direct DCCE Ratio to Earned		5.58%	6.00%	6.00%		33.09%	27.50%	27.50%		0.76%	27.50%	27.50%		10.57%	10.80%	10.40%
Direct Assumed Ratio to Earned		-	6.00%	6.00%		33.09%	27.50%	27.50%		-	27.50%	27.50%		33.09%	27.50%	27.50%
External Ceded DCCE Ratio to Earned		5.56%	1.00%	1.00%		33.09%	27.50%	27.50%		0.76%	27.50%	27.50%		13.50%	3.20%	3.60%
Quota Share DCCE Ratio to Earned		-									-	-		-	12.82%	12.60%
Total Ceded DCCE Ratio to Earned		5.58%	1.00%	1.00%		33.09%	27.50%	27.50%		0.76%	27.50%	27.50%		13.50%	12.12%	11.95%
Net DCCE Ratio to Earned	6.41%	5.58%	6.40%	6.43%	45.40%	33.09%	27.50%	27.50%	136.15%	0.76%	27.50%	27.50%	10.50%	10.75%	12.82%	12.60%
ratio of Paid ULAE to Net Losses GS Earned		7.21%	6.00%	6.00%		2.68%	2.50%	2.25%		0.76%	2.25%	2.25%		6.33%	0.49%	0.42%
Direct Commission Ratio to Written		21.36%	27.50%	27.50%		17.00%	17.50%	17.50%		1.67%	17.50%	17.50%		25.75%	25.52%	25.33%
Direct Assumed Ratio to Written		-				26.00%	26.00%	26.00%		-	26.00%	26.00%		26.00%	26.00%	26.00%
External Ceded Commission Ratio to Written		6.52%	5.00%	5.00%		3.45%	2.50%	3.50%		-	3.50%	3.50%		5.66%	4.86%	4.85%
Quota Share Commission Ratio to Written			29.32%	29.32%			20.71%	29.84%			17.79%	17.79%			26.88%	26.73%
Total Ceded Commission Ratio to Written		6.52%	27.31%	27.31%		3.45%	20.33%	20.45%		-	17.47%	17.47%		5.66%	25.42%	25.31%
Net Commission Ratio to Written		20.52%	29.32%	29.32%		20.67%	29.71%	20.54%		-	17.79%	17.79%		27.70%	29.58%	26.73%
Acquisition Expense Ratio to Written		23.68%	24.60%	23.37%		22.23%	14.76%	12.30%		2.19%	14.76%	12.30%	27.69%	27.10%	22.55%	20.95%
Other Underwriting Expense Ratio to Written		6.30%	5.40%	5.13%		4.86%	3.24%	2.76%		0.48%	3.24%	2.70%	6.08%	5.96%	4.95%	4.60%
Underwriting Expense Ratio to Written		24.98%	30.90%	28.50%		27.11%	18.00%	15.00%		2.67%	18.60%	15.00%	33.77%	33.12%	2.55%	1.08%
ratio of External Ceded Written to Gross Written	(8.02%)	(9.02%)	(7.50%)	(7.50%)	(19.04%)	(9.65%)	(2.00%)	(2.00%)	(8.00%)	(2.00%)	(2.00%)	(2.00%)	(8.35%)	(9.19%)	(6.01%)	(5.89%)
ratio of Total Ceded Written to Gross Written	(8.02%)	(9.02%)	(90.75%)	(90.75%)	(19.04%)	(9.65%)	(90.70%)	(90.20%)	(8.00%)	(2.00%)	(90.20%)	(90.20%)	(8.35%)	(9.16%)	(90.60%)	(90.59%)
ratio of Direct Unearned to Direct Written	42.50%	44.88%	45.00%	45.00%	55.48%	61.45%	50.00%	50.00%	52.29%	26.43%	50.00%	50.00%	44.64%	45.19%	45.99%	46.06%
ratio of Assumed Unearned to Assumed Written	-	-			-	69.31%	50.00%	50.00%	-	-	50.00%	50.00%	#DIV/0!	69.31%	50.00%	50.00%
ratio of External Ceded Unearned to External Ceded Written	7.51%	10.03%	10.00%	10.00%	0.01%	-	10.00%	10.00%	-	-	10.00%	10.00%	6.04%	7.20%	10.00%	10.00%
ratio of Quota Share Unearned to Quota Share Written			47.84%	47.84%			50.82%	50.32%			50.82%	50.82%			48.63%	48.74%
ratio of Total Ceded Unearned to Total Ceded Written	7.51%	10.03%	44.71%	44.71%	0.01%	-	49.91%	49.91%	-	-	49.91%	49.91%	6.64%	7.20%	46.11%	46.22%
% of Premium Collected to Year Written		90.00%	90.00%	90.00%		90.00%	90.00%	90.00%		90.00%	90.00%	90.00%	91.36%	90.00%	90.00%	90.00%
Premium Written-Direct	35,453,311	14,530,476	46,500,000	55,775,000	6,570,071	8,873,387	11,800,000	14,750,000	29,978	150,000	200,000	250,000	42,252,310	44,559,583	60,550,000	70,775,000
Premium Written-Assumed		-	-	-		2,788,536	6,000,000	8,000,000		-	-	-		2,788,536	6,000,000	8,000,000
Premium Written-External Ceded	(2,843,952)	(3,114,082)	(3,637,500)	(4,183,125)	(689,443)	(1,221,399)	(356,000)	(455,000)	(2,398)	(3,000)	(4,000)	(5,000)	(3,535,793)	(4,338,481)	(3,997,500)	(4,643,125)
Premium Written-Quota Share			(40,376,250)	(46,432,688)			(15,699,600)	(20,065,500)			(176,400)	(220,500)			(56,252,250)	(66,718,688)
Premium Written-Total Ceded	(2,843,952)	(3,114,082)	(44,013,750)	(50,615,813)	(689,443)	(1,221,399)	(16,055,600)	(20,520,500)	(2,398)	(3,000)	(180,400)	(225,500)	(3,535,793)	(4,338,481)	(60,249,750)	(71,361,813)
Premium Written-Net	32,209,359	31,422,394	4,486,250	5,159,188	6,180,578	11,440,524	1,744,400	2,229,500	27,580	147,000	19,600	24,500	38,817,517	43,009,918	6,250,250	7,413,188
Premium Unearned-Direct	15,068,771	15,499,556	21,825,000	25,098,750	3,311,548	6,067,689	5,900,000	7,375,000	24,642	39,642	100,000	125,000	18,904,962	21,606,528	27,825,000	32,598,750
Premium Unearned-Assumed		-	-	-		1,932,803	3,000,000	4,000,000	-	-	-	-		1,932,803	3,000,000	4,000,000
Premium Unearned-External Ceded	(213,581)	(312,424)	(363,750)	(418,313)	(46)	-	(35,600)	(45,500)	-	-	(400)	(500)	(213,627)	(312,424)	(399,750)	(464,313)
Premium Unearned-Quota Share			(19,315,125)	(22,212,394)			(7,977,960)	(10,196,550)			(89,640)	(112,050)			(27,382,725)	(32,520,994)
Premium Unearned-Total Ceded	(213,581)	(312,424)	(19,678,875)	(22,630,706)	(46)	-	(8,013,560)	(10,242,050)	-	-	(90,040)	(112,550)	(213,627)	(312,424)	(27,782,475)	(32,985,306)
Premium Unearned-Net	14,855,191	15,187,133	2,146,125	2,468,044	3,811,502	8,000,493	886,440	1,132,950	24,642	39,642	9,960	12,450	18,691,335	23,227,267	3,042,525	3,613,444
Premium Uncollected-Direct	2,916,567	3,453,648	4,850,000	5,577,500	737,727	987,339	1,180,000	1,475,000	4,769	15,000	20,000	25,000	3,659,083	4,455,986	6,050,000	7,077,500
Premium Uncollected-Assumed		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Premium Uncollected-External Ceded	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Premium Uncollected-Quota Share			-	-		-	-	-	-	-	-	-		-	-	-
Premium Uncollected-Total Ceded	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Premium Uncollected-Net	2,916,567	3,453,648	4,850,000	5,577,500	737,727	987,339	1,180,000	1,475,000	4,769	15,000	20,000	25,000	3,659,083	4,455,986	6,050,000	7,077,500
Premium Collected-Direct		33,999,395	47,103,648	55,047,500		9,623,775	11,607,339	14,455,000		139,769	195,000	245,000		43,762,940	56,905,986	69,747,500
Premium Collected-Assumed		-	-	-		2,788,536	6,000,000	8,000,000		-	-	-		2,788,536	6,000,000	8,000,000
Premium Collected-External Ceded		(3,114,082)	(3,637,500)	(4,183,125)		(1,221,399)	(356,000)	(455,000)		(3,000)	(4,000)	(5,000)		(4,338,481)	(3,997,500)	(4,643,125)
Premium Collected-Quota Share			(40,376,250)	(46,432,688)			(15,699,600)	(20,065,500)			(176,400)	(220,500)			(56,252,250)	(66,718,688)
Premium Collected-Total Ceded		(3,114,082)	(44,013,750)	(50,615,813)		(1,221,399)	(16,055,600)	(20,520,500)		(3,000)	(180,400)	(225,500)		(4,338,481)	(60,249,750)	(71,361,813)
Premium Collected-Net		30,885,313	3,089,898	4,431,688		11,190,912	1,551,739	1,934,500		136,769	14,600	19,500	43,771,102	42,212,994	4,656,236	6,385,688
Premium Earned-Direct		34,105,691	42,174,556	52,501,250		7,617,248	11,967,689	13,275,000		135,000	139,642	225,000		41,257,937	54,251,888	66,001,250
Premium Earned-Assumed			-	-		855,733	4,932,803	7,000,000			-	-		855,733	4,932,803	7,000,000
Premium Earned-External Ceded		(3,015,239)	(3,586,174)	(4,128,563)		(1,221,445)	(320,400)	(445,100)		(3,000)	(3,600)	(4,900)		(4,239,684)	(3,910,174)	(4,578,563)
Premium Earned-Quota Share			(34,729,544)	(43,515,419)			(14,922,083)	(17,846,910)			(122,438)	(198,090)			(49,774,066)	(61,580,419)
Premium Earned-Total Ceded		(3,015,239)	(38,315,718)	(47,643,981)		(1,221,445)	(15,242,483)	(18,292,010)		(3,000)	(126,038)	(202,990)		(4,239,684)	(53,684,239)	(66,158,981)
Premium Earned-Net	32,486,799	31,099,452	3,858,838	4,857,269	3,882,410	7,251,533	1,658,009	1,982,990	2,958	132,000	13,604	22,010	36,372,135	38,473,985	5,630,152	6,842,269
Loss Incurred-Direct		4,215,451	5,603,565	7,087,669		2,505,041	3,291,115	3,650,625		15,341	38,402	61,875		6,736,833	9,023,081	10,809,169
Loss Incurred-Assumed		-	-	-		251,562	1,356,521	1,925,000		-	-	-		281,532	1,356,521	1,925,000
Loss Incurred-External Ceded		(372,682)	(44,827)	(51,697)		(401,550)	(88,110)	(122,403)		(341)	(990)	(1,348)		(774,874)	(133,927)	(175,357)
Loss Incurred-Quota Share			(5,083,864)	(6,332,456)			(4,103,573)	(4,907,900)			(33,670)	(54,475)			(9,221,107)	(11,294,831)
Loss Incurred-Total Ceded		(372,682)	(5,128,691)	(6,384,062)		(401,550)	(4,191,683)	(5,030,303)		(341)	(34,660)	(55,822)		(774,874)	(9,355,035)	(11,470,188)
Loss Incurred-Net	3,603,139	3,842,769	564,874	703,606	753,257	2,385,724	455,953	545,322	6,501	15,000	3,741	6,053	5,762,897	6,243,492	1,024,567	1,254,981
DCCE Incurred-Direct		1,904,014	2,536,473	3,150,075		2,520,747	3,291,115	3,650,625		1,023	33,402	61,875		4,425,785	5,859,990	6,862,575
DCCE Incurred-Assumed						283,185	1,356,521	1,925,000						283,185	1,356,521	1,925,000
DCCE Incurred-External Ceded		(168,321)	(35,862)	(41,286)		(404,208)	(88,110)	(122,403)		(23)	(960)	(1,348)		(572,563)	(124,962)	(165,036)
DCCE Incurred-Quota Share			(2,245,150)	(2,707,910)			(4,103,573)	(4,907,900)			(73,670)	(54,475)			(6,322,394)	(7,700,285)
DCCE Incurred-Total Ceded		(168,321)	(2,281,012)	(2,839,196)		(404,208)	(4,191,683)	(5,030,303)		(23)	(34,660)	(55,822)		(572,563)	(6,507,356)	(7,925,321)
DCCE Incurred-Net	2,083,090	1,735,693	249,461	310,879	1,762,519	2,399,724	455,953	545,322	4,900	1,000	3,741	6,053	3,850,518	4,130,400	709,155	862,254
ULAE Paid - Direct	2,125,000	2,241,000	2,315,303	2,418,634	180,000	194,000	414,502	446,173	1,000	1,000	3,061	4,052	2,365,000	2,436,000	2,732,866	2,869,759
ULAE Paid - 90% Quota Share			(2,083,773)	(2,176,771)			(373,052)	(401,555)			(2,755)	(4,457)			(2,459,580)	(2,582,783)
ULAE Paid - Net	2,125,000	2,241,000	231,530	241,863	180,000	194,000	41,450	44,617	1,000	1,000	306	405	2,366,000	2,436,000	273,287	286,976
ULAE Unpaid - Direct	1,238,000	583,772	990,747	1,432,294	173,000	284,308	425,248	676,145	1,000	461	1,149	1,861	1,407,000	875,189	1,478,138	2,110,240
ULAE Unpaid - 90% Quota Share			(891,688)	(1,289,610)			(437,623)	(608,531)			(1,033)	(1,675)			(1,330,324)	(1,899,216)
ULAE Unpaid - Net	1,252,000	589,772	99,074	143,223	173,000	284,308	48,625	67,615	1,000	461	115	126	1,402,000	875,189	147,814	211,024
ULAE Incurred - Direct	1,060,000	1,542,722	2,716,123	2,890,126	130,000	305,605	615,765	636,070	1,000	461	3,747	5,666	1,141,000	1,049,189	3,335,635	3,501,862
ULAE Incurred - 90% Quota Share			(2,444,691)	(2,574,113)			(554,188)	(572,463)			(3,372)	(5,099)			(3,002,251)	(3,151,670)
ULAE Incurred - Net	1,965,000	1,542,722	271,632	288,013	150,000	305,605	61,576	63,607	1,000	461	375	567	2,144,000	1,549,189	333,554	350,156
Commission-Direct		7,703,404	12,337,500	15,336,125		1,528,154	2,065,000	2,581,250		2,509	35,000	43,750	11,231,911	11,474,117	15,437,500	17,963,125
Commission-Assumed						725,019	1,560,000	2,080,000						725,019	1,560,000	2,080,000
Commission-External Ceded		(202,914)	(181,875)	(209,156)		(42,593)	(12,460)	(15,925)			(140)	(175)	85,999	(245,422)	(194,475)	(225,256)
Commission-Quota Share			(11,840,063)	(13,616,072)			(3,251,286)	(4,180,793)			(31,374)	(39,218)			(15,122,723)	(17,836,072)
Commission-Total Ceded		(202,914)	(12,021,938)	(13,825,228)		(42,593)	(3,263,746)	(4,196,718)			(31,514)	(39,393)		(245,422)	(15,317,198)	(18,061,338)
Total Commission-Net		9,590,549	1,315,562	1,512,597		2,380,665	361,254	464,532		2,500	3,486	4,358	11,144,942	11,953,715	1,680,303	1,901,787
Acquisition Expense - Direct	8,217,518	9,905,111	11,436,175	13,057,021	1,907,463	2,104,535	2,574,734	2,742,265	5,302	2,280	28,930	30,135	11,772,583	12,193,619	13,630,839	14,520,441
Acquisition Expense - Quota Share			(9,932,558)	(10,851,319)			(2,317,261)	(2,468,057)			(26,037)	(27,122)			(12,275,355)	(13,346,497)
Other Underwriting Expense	2,155,151	2,174,295	2,422,575	2,648,663	417,614	431,742	565,186	601,965	1,822	720	6,350	6,615	2,574,587	2,659,760	2,994,111	3,255,243
Quota Share % Commission			(2,018,813)	(2,321,034)			(784,080)	(1,003,275)			(8,820)	(11,025)			(2,812,613)	(3,335,034)
Net Underwriting Expense excluding Commission	11,072,949	12,079,404	1,907,380	1,509,731	2,320,077	2,676,376	37,579	(127,082)	10,124	4,000	423	(1,307)	14,203,150	14,759,750	1,545,482	1,409,253

Surety

		Year Incurred	Unpaid at end of 2012	2013	2014	2015	Paid during 2013	2014	2015
Loss		prior	8,632,421	1,032,796	380,722	-	7,599,625	646,075	380,722
	3,842,769	2013		2,882,077	1,921,324	1,344,989	960,692	960,692	576,415
	564,874	2014			423,655	282,437		141,218	141,218
	703,606	2015				527,705			175,902
		total	8,632,421	3,914,873	2,731,761	2,155,111	8,560,317	1,747,985	1,280,257
DCCE		prior	3,082,489	839,893	129,367	0	2,242,596	710,526	129,367
	1,735,683	2013		1,301,762	867,841	607,489	433,921	433,921	260,352
	249,461	2014			187,096	124,731		62,365	62,365
	310,870	2015				233,159			77,720
		total	3,082,489	2,141,655	1,184,305	965,379	2,676,516	1,206,812	529,805

3,778,420	5,608,515	731,814	438,091
3,517,772	2,553,276	810,860	147,635

Payout Pattern	
Year 1	40%
Year 2	50%
Year 3	10%
after Year 3	0%
	100%

Casualty

		Year Incurred	Unpaid at end of 2012	2013	2014	2015	Paid during 2013	2014	2015
Loss		prior	2,058,799	1,602,202	1,181,470	848,770	456,577	420,732	332,700
	2,350,724	2013		1,729,293	1,192,592	595,003	596,431	596,411	357,359
	455,953	2014			341,064	227,976		113,988	113,988
	545,322	2015				465,992			136,331
		total	2,058,799	3,331,495	2,716,296	2,320,741	1,053,528	1,131,151	940,277
DCCE		prior	2,686,965	2,114,111	1,588,542	1,214,031	572,854	525,569	374,511
	2,399,724	2013		1,799,793	1,199,862	839,903	599,931	599,931	359,959
	455,953	2014			341,964	227,976		113,988	113,988
	545,322	2015				408,092			136,331
		total	2,686,965	3,913,904	3,130,368	2,690,002	1,172,785	1,239,488	984,789

Payout Pattern	
Year 1	25%
Year 2	25%
Year 3	15%
after Year 3	35%
	100%

Property

		Year Incurred	Unpaid at end of 2012	2013	2014	2015	Paid during 2013	2014	2015
Loss		prior	6,501	-	-	-	6,501		
	15,000	2013		3,000	-	-	12,000	3,000	-
	3,741	2014			748	-		2,993	748
	6,053	2015				1,211			4,842
		total	6,501	3,000	748	1,211	12,501	5,993	5,590
DCCE		prior		-	-	-			
	1,000	2013		200	-	-	800	200	-
	3,741	2014			748	-		2,993	748
	6,053	2015				1,211			4,842
		total	-	200	748	1,211	800	3,193	5,590

Payout Pattern	
Year 1	80%
Year 2	20%
Year 3	0%
after Year 3	0%
	100%

State Navigation Menu

Iowa
Year 1 2013

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Planned Premium Volume By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	Direct Premiums Written	Assumed Premiums Written	Ceded Premiums Written	Net Premiums Written	Direct Premiums Earned	Assumed Premiums Earned	Ceded Premiums Earned	Net Premiums Earned
1.0	Fire				-				-
2.1	Allied Lines				-				-
2.2	Multiple Peril Crop				-				-
2.3	Federal Flood				-				-
3.0	Farmowners Multiple Peril				-				-
4.0	Homeowners Multiple Peril				-				-
5.1	Commercial Multiple Peril (Non-Liability Portion)				-				-
5.2	Commercial Multiple Peril (Liability Portion)				-				-
6.0	Mortgage Guaranty				-				-
8.0	Ocean Marine				-				-
9.0	Inland Marine	-	-	-	-	-	-	-	-
10.0	Financial Guaranty				-				-
11.1	Medical Professional Liability - Occurrence				-				-
11.2	Medical Professional Liability - Claims Made				-				-
12.0	Earthquake				-				-
13.0	Group A&H				-				-
14.0	Credit A&H (Group & Individual)				-				-
15.1	Collectively Renewable A&H				-				-
15.2	Non-Cancellable A&H				-				-
15.3	Guaranteed Renewable A&H				-				-
15.4	Non-Renew-Stated Reasons Only A&H				-				-
15.5	Other Accident Only				-				-
15.6	Medicare Title XVII exempt from state taxes or fees				-				-
15.7	All Other A&H				-				-
15.8	Federal Employees Health Benefits Program				-				-
16.0	Workers' Compensation				-				-
17.1	Other Liability	-	-	-	-	-	-	-	-
17.3	Excess Workers Compensation				-				-
18.1	Products Liability - Occurrence				-				-
18.2	Products Liability - Claims Made				-				-
19.1	Private Passenger Auto No-Fault (PIP)				-				-
19.2	Other Private Passenger Auto Liability				-				-
19.3	Commercial Auto No-Fault (PIP)				-				-
19.4	Other Commercial Auto Liability				-				-
21.1	Private Passenger Auto Phys Damage				-				-
21.2	Commercial Auto Physical Damage				-				-
22.0	Aircraft (All Perils)				-				-
23.0	Fidelity				-				-
24.0	Surety	215,006	-	19,387	195,619	241,877	-	19,096	222,781
26.0	Burglary and Theft				-				-
27.0	Boiler and Machinery				-				-
28.0	Credit				-				-
28.0	Credit Disability				-				-
30.0	Warranty				-				-
34.0	Prepaid Legal				-				-
34.0	Bail Bonds				-				-
34.0	Glass				-				-
34.0	Title				-				-
34.0	Livestock				-				-
34.0	Industrial Extended Coverage				-				-
34.0	Mobile Home Multiple Peril				-				-
34.0	Mobile Home Physical Damage				-				-
34.0	Reinsurance				-				-
34.0	Other				-				-
34.0	Other				-				-
34.0	Other				-				-
	Total	215,006	-	19,387	195,619	241,877	-	19,096	222,781
	Verification from Net Premiums and Loss Development by LOB								222,781

State Navigation Menu

Iowa
Year 2 2014

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Planned Premium Volume By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	Direct Premiums Written	Assumed Premiums Written	Ceded Premiums Written	Net Premiums Written	Direct Premiums Earned	Assumed Premiums Earned	Ceded Premiums Earned	Net Premiums Earned
1.0	Fire				-				-
2.1	Allied Lines				-				-
2.2	Multiple Peril Crop				-				-
2.3	Federal Flood				-				-
3.0	Farmowners Multiple Peril				-				-
4.0	Homeowners Multiple Peril				-				-
5.1	Commercial Multiple Peril (Non-Liability Portion)				-				-
5.2	Commercial Multiple Peril (Liability Portion)				-				-
6.0	Mortgage Guaranty				-				-
8.0	Ocean Marine				-				-
9.0	Inland Marine	-	-	-	-	-	-	-	-
10.0	Financial Guaranty				-				-
11.1	Medical Professional Liability - Occurrence				-				-
11.2	Medical Professional Liability - Claims Made				-				-
12.0	Earthquake				-				-
13.0	Group A&H				-				-
14.0	Credit A&H (Group & Individual)				-				-
15.1	Collectively Renewable A&H				-				-
15.2	Non-Cancellable A&H				-				-
15.3	Guaranteed Renewable A&H				-				-
15.4	Non-Renew-Stated Reasons Only A&H				-				-
15.5	Other Accident Only				-				-
15.6	Medicare Title XVII exempt from state taxes or fees				-				-
15.7	All Other A&H				-				-
15.8	Federal Employees Health Benefits Program				-				-
16.0	Workers' Compensation				-				-
17.1	Other Liability	-	-	-	-	-	-	-	-
17.3	Excess Workers Compensation				-				-
18.1	Products Liability - Occurrence				-				-
18.2	Products Liability - Claims Made				-				-
19.1	Private Passenger Auto No-Fault (PIP)				-				-
19.2	Other Private Passenger Auto Liability				-				-
19.3	Commercial Auto No-Fault (PIP)				-				-
19.4	Other Commercial Auto Liability				-				-
21.1	Private Passenger Auto Phys Damage				-				-
21.2	Commercial Auto Physical Damage				-				-
22.0	Aircraft (All Perils)				-				-
23.0	Fidelity				-				-
24.0	Surety	301,936	-	274,006	27,929	272,690	-	247,654	25,036
26.0	Burglary and Theft				-				-
27.0	Boiler and Machinery				-				-
28.0	Credit				-				-
28.0	Credit Disability				-				-
30.0	Warranty				-				-
34.0	Prepaid Legal				-				-
34.0	Bail Bonds				-				-
34.0	Glass				-				-
34.0	Title				-				-
34.0	Livestock				-				-
34.0	Industrial Extended Coverage				-				-
34.0	Mobile Home Multiple Peril				-				-
34.0	Mobile Home Physical Damage				-				-
34.0	Reinsurance				-				-
34.0	Other				-				-
34.0	Other				-				-
34.0	Other				-				-
	Total	301,936	-	274,006	27,929	272,690	-	247,654	25,036
	Verification from Net Premiums and Loss Development by LOB								25,036

State Navigation Menu

Iowa
Year 3 2015

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Planned Premium Volume By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	Direct Premiums Written	Assumed Premiums Written	Ceded Premiums Written	Net Premiums Written	Direct Premiums Earned	Assumed Premiums Earned	Ceded Premiums Earned	Net Premiums Earned
1.0	Fire				-				-
2.1	Allied Lines				-				-
2.2	Multiple Peril Crop				-				-
2.3	Federal Flood				-				-
3.0	Farmowners Multiple Peril				-				-
4.0	Homeowners Multiple Peril				-				-
5.1	Commercial Multiple Peril (Non-Liability Portion)				-				-
5.2	Commercial Multiple Peril (Liability Portion)				-				-
6.0	Mortgage Guaranty				-				-
8.0	Ocean Marine				-				-
9.0	Inland Marine	-	-	-	-	-	-	-	-
10.0	Financial Guaranty				-				-
11.1	Medical Professional Liability - Occurrence				-				-
11.2	Medical Professional Liability - Claims Made				-				-
12.0	Earthquake				-				-
13.0	Group A&H				-				-
14.0	Credit A&H (Group & Individual)				-				-
15.1	Collectively Renewable A&H				-				-
15.2	Non-Cancellable A&H				-				-
15.3	Guaranteed Renewable A&H				-				-
15.4	Non-Renew-Stated Reasons Only A&H				-				-
15.5	Other Accident Only				-				-
15.6	Medicare Title XVII exempt from state taxes or fees				-				-
15.7	All Other A&H				-				-
15.8	Federal Employees Health Benefits Program				-				-
16.0	Workers' Compensation				-				-
17.1	Other Liability	-	-	-	-	-	-	-	-
17.3	Excess Workers Compensation				-				-
18.1	Products Liability - Occurrence				-				-
18.2	Products Liability - Claims Made				-				-
19.1	Private Passenger Auto No-Fault (PIP)				-				-
19.2	Other Private Passenger Auto Liability				-				-
19.3	Commercial Auto No-Fault (PIP)				-				-
19.4	Other Commercial Auto Liability				-				-
21.1	Private Passenger Auto Phys Damage				-				-
21.2	Commercial Auto Physical Damage				-				-
22.0	Aircraft (All Perils)				-				-
23.0	Fidelity				-				-
24.0	Surety	347,226	-	315,107	32,118	332,090	-	301,451	30,639
26.0	Burglary and Theft				-				-
27.0	Boiler and Machinery				-				-
28.0	Credit				-				-
28.0	Credit Disability				-				-
30.0	Warranty				-				-
34.0	Prepaid Legal				-				-
34.0	Bail Bonds				-				-
34.0	Glass				-				-
34.0	Title				-				-
34.0	Livestock				-				-
34.0	Industrial Extended Coverage				-				-
34.0	Mobile Home Multiple Peril				-				-
34.0	Mobile Home Physical Damage				-				-
34.0	Reinsurance				-				-
34.0	Other				-				-
34.0	Other				-				-
34.0	Other				-				-
	Total	347,226	-	315,107	32,118	332,090	-	301,451	30,639
	Verification from Net Premiums and Loss Development by LOB								30,639

Iowa
Year 1 2013

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Incurred Loss Summary By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	Direct Losses Incurred*	Assumed Losses Incurred*	Ceded Losses Incurred*	Net Losses Incurred*
---------	----------------------------------	---------	---------	---------	---------
1.0	Fire				-
2.0	Allied Lines				-
2.2	Multiple Peril Crop				-
2.3	Federal Flood				-
3.0	Farmowners Multiple Peril				-
4.0	Homeowners Multiple Peril				-
5.1	Commercial Multiple Peril (Non-Liability Portion)				-
5.2	Commercial Multiple Peril (Liability Portion)				-
6.0	Mortgage Guaranty				-
8.0	Ocean Marine				-
9.0	Inland Marine	-	-	-	-
10.0	Financial Guaranty				-
11.1	Medical Professional Liability - Occurrence				-
11.2	Medical Professional Liability - Claims Made				-
12.0	Earthquake				-
13.0	Group A&H				-
14.0	Credit A&H (Group & Individual)				-
15.1	Collectively Renewable A&H				-
15.2	Non-Cancellable A&H				-
15.3	Guaranteed Renewable A&H				-
15.4	Non-Renew - Stated Reasons Only A&H				-
15.5	Other Accident Only				-
15.6	Medicare Title XVII exempt from state taxes or fees				-
15.7	All Other A&H				-
15.8	Federal Employees Health Benefits Program				-
16.0	Workers' Compensation				-
17.1	Other Liability	-	-	-	-
17.3	Excess Workers Compensation				-
18.1	Products Liability - Occurrence				-
18.2	Products Liability - Claims Made				-
19.1	Private Passenger Auto No-Fault (PIP)				-
19.2	Other Private Passenger Auto Liability				-
19.3	Commercial Auto No-Fault (PIP)				-
19.4	Other Commercial Auto Liability				-
21.1	Private Passenger Auto Phys Damage				-
21.2	Commercial Auto Physical Damage				-
22.0	Aircraft (All Perils)				-
23.0	Fidelity				-
24.0	Surety	54,340	-	3,426	50,914
26.0	Burglary and Theft				-
27.0	Boiler and Machinery				-
28.0	Credit				-
28.0	Credit Disability				-
30.0	Warranty				-
34.0	Prepaid Legal				-
34.0	Bail Bonds				-
34.0	Glass				-
34.0	Title				-
34.0	Livestock				-
34.0	Industrial Extended Coverage				-
34.0	Mobile Home Multiple Peril				-
34.0	Mobile Home Physical Damage				-
34.0	Reinsurance				-
34.0	Other				-
34.0	Other				-
34.0	Other				-
	Total	54,340	-	3,426	50,914
	Verification from Net Premiums and Loss Development by LOB	=========	=========	=========	50,914

* Include loss adjustment expenses.

Iowa
Year 2 2014

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Incurred Loss Summary By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	Direct Losses Incurred*	Assumed Losses Incurred*	Ceded Losses Incurred*	Net Losses Incurred*
1.0	Fire				-
2.0	Allied Lines				-
2.2	Multiple Peril Crop				-
2.3	Federal Flood				-
3.0	Farmowners Multiple Peril				-
4.0	Homeowners Multiple Peril				-
5.1	Commercial Multiple Peril (Non-Liability Portion)				-
5.2	Commercial Multiple Peril (Liability Portion)				-
6.0	Mortgage Guaranty				-
8.0	Ocean Marine				-
9.0	Inland Marine	-	-	-	-
10.0	Financial Guaranty				-
11.1	Medical Professional Liability - Occurrence				-
11.2	Medical Professional Liability - Claims Made				-
12.0	Earthquake				-
13.0	Group A&H				-
14.0	Credit A&H (Group & Individual)				-
15.1	Collectively Renewable A&H				-
15.2	Non-Cancellable A&H				-
15.3	Guaranteed Renewable A&H				-
15.4	Non-Renew - Stated Reasons Only A&H				-
15.5	Other Accident Only				-
15.6	Medicare Title XVII exempt from state taxes or fees				-
15.7	All Other A&H				-
15.8	Federal Employees Health Benefits Program				-
16.0	Workers' Compensation				-
17.1	Other Liability	-	-	-	-
17.3	Excess Workers Compensation				-
18.1	Products Liability - Occurrence				-
18.2	Products Liability - Claims Made				-
19.1	Private Passenger Auto No-Fault (PIP)				-
19.2	Other Private Passenger Auto Liability				-
19.3	Commercial Auto No-Fault (PIP)				-
19.4	Other Commercial Auto Liability				-
21.1	Private Passenger Auto Phys Damage				-
21.2	Commercial Auto Physical Damage				-
22.0	Aircraft (All Perils)				-
23.0	Fidelity				-
24.0	Surety	70,738	-	63,714	7,024
26.0	Burglary and Theft				-
27.0	Boiler and Machinery				-
28.0	Credit				-
28.0	Credit Disability				-
30.0	Warranty				-
34.0	Prepaid Legal				-
34.0	Bail Bonds				-
34.0	Glass				-
34.0	Title				-
34.0	Livestock				-
34.0	Industrial Extended Coverage				-
34.0	Mobile Home Multiple Peril				-
34.0	Mobile Home Physical Damage				-
34.0	Reinsurance				-
34.0	Other				-
34.0	Other				-
34.0	Other				-
	Total	70,738	-	63,714	7,024
	Verification from Net Premiums and Loss Development by LOB				7,024

* Include loss adjustment expenses.

Iowa
Year 3 2015

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Incurred Loss Summary By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	Direct Losses Incurred*	Assumed Losses Incurred*	Ceded Losses Incurred*	Net Losses Incurred*
1.0	Fire				-
2.0	Allied Lines				-
2.2	Multiple Peril Crop				-
2.3	Federal Flood				-
3.0	Farmowners Multiple Peril				-
4.0	Homeowners Multiple Peril				-
5.1	Commercial Multiple Peril (Non-Liability Portion)				-
5.2	Commercial Multiple Peril (Liability Portion)				-
6.0	Mortgage Guaranty				-
8.0	Ocean Marine				-
9.0	Inland Marine	-	-	-	-
10.0	Financial Guaranty				-
11.1	Medical Professional Liability - Occurrence				-
11.2	Medical Professional Liability - Claims Made				-
12.0	Earthquake				-
13.0	Group A&H				-
14.0	Credit A&H (Group & Individual)				-
15.1	Collectively Renewable A&H				-
15.2	Non-Cancellable A&H				-
15.3	Guaranteed Renewable A&H				-
15.4	Non-Renew - Stated Reasons Only A&H				-
15.5	Other Accident Only				-
15.6	Medicare Title XVII exempt from state taxes or fees				-
15.7	All Other A&H				-
15.8	Federal Employees Health Benefits Program				-
16.0	Workers' Compensation				-
17.1	Other Liability	-	-	-	-
17.3	Excess Workers Compensation				-
18.1	Products Liability - Occurrence				-
18.2	Products Liability - Claims Made				-
19.1	Private Passenger Auto No-Fault (PIP)				-
19.2	Other Private Passenger Auto Liability				-
19.3	Commercial Auto No-Fault (PIP)				-
19.4	Other Commercial Auto Liability				-
21.1	Private Passenger Auto Phys Damage				-
21.2	Commercial Auto Physical Damage				-
22.0	Aircraft (All Perils)				-
23.0	Fidelity				-
24.0	Surety	82,849	-	74,622	8,227
26.0	Burglary and Theft				-
27.0	Boiler and Machinery				-
28.0	Credit				-
28.0	Credit Disability				-
30.0	Warranty				-
34.0	Prepaid Legal				-
34.0	Bail Bonds				-
34.0	Glass				-
34.0	Title				-
34.0	Livestock				-
34.0	Industrial Extended Coverage				-
34.0	Mobile Home Multiple Peril				-
34.0	Mobile Home Physical Damage				-
34.0	Reinsurance				-
34.0	Other				-
34.0	Other				-
34.0	Other				-
	Total	82,849	-	74,622	8,227
	Verification from Net Premiums and Loss Development by LOB	=========	=========	=========	8,227

* Include loss adjustment expenses.

Iowa

Company Name: Developers Surety and Indemnity Company
(Property & Casualty Insurance Company)
Net Premium and Loss Developments By Line of Business
Amounts in Whole Dollars

Annual Statement Line	Description	2013 Premiums Earned	2013 Losses Incurred*	2013 Loss Ratio	2014 Premiums Earned	2014 Losses Incurred*	2014 Loss Ratio	2015 Premiums Earned	2015 Losses Incurred*	2015 Loss Ratio
1.0	Fire	-	-	-	-	-	-	-	-	-
2.1	Allied Lines	-	-	-	-	-	-	-	-	-
2.2	Multiple Peril Crop	-	-	-	-	-	-	-	-	-
2.3	Federal Flood	-	-	-	-	-	-	-	-	-
3.0	Farmowners Multiple Peril	-	-	-	-	-	-	-	-	-
4.0	Homeowners Multiple Peril	-	-	-	-	-	-	-	-	-
5.1	Commercial Multiple Peril (Non-Liability Portion)	-	-	-	-	-	-	-	-	-
5.2	Commercial Mutiple Peril (Liability Portion)	-	-	-	-	-	-	-	-	-
6.0	Mortgage Guaranty	-	-	-	-	-	-	-	-	-
8.0	Ocean Marine	-	-	-	-	-	-	-	-	-
9.0	Inland Marine	-	-	-	-	-	-	-	-	-
10.0	Financial Guaranty	-	-	-	-	-	-	-	-	-
11.1	Medical Professional Liability - Occurrence	-	-	-	-	-	-	-	-	-
11.2	Medical Professional Liability - Claims Made	-	-	-	-	-	-	-	-	-
12.0	Earthquake	-	-	-	-	-	-	-	-	-
13.0	Group A&H	-	-	-	-	-	-	-	-	-
14.0	Credit A&H (Group & Individual)	-	-	-	-	-	-	-	-	-
15.1	Collectively Renewable A&H	-	-	-	-	-	-	-	-	-
15.2	Non-Cancellable A&H	-	-	-	-	-	-	-	-	-
15.3	Guaranteed Renewable A&H	-	-	-	-	-	-	-	-	-
15.4	Non-Renew-Stated Reasons Only A&H	-	-	-	-	-	-	-	-	-
15.5	Other Accident Only	-	-	-	-	-	-	-	-	-
15.6	Medicare Title XVII exempt from state taxes or fees	-	-	-	-	-	-	-	-	-
15.7	All Other A&H	-	-	-	-	-	-	-	-	-
15.8	Federal Employees Health Benefits Program	-	-	-	-	-	-	-	-	-
16.0	Workers' Compensation	-	-	-	-	-	-	-	-	-
17.1	Other Liability	-	-	-	-	-	-	-	-	-
17.3	Excess Workers Compensation	-	-	-	-	-	-	-	-	-
18.1	Products Liability - Occurrence	-	-	-	-	-	-	-	-	-
18.2	Products Liability - Claims Made	-	-	-	-	-	-	-	-	-
19.1	Private Passenger Auto No-Fault (PIP)	-	-	-	-	-	-	-	-	-
19.2	Other Private Passenger Auto Liability	-	-	-	-	-	-	-	-	-
19.3	Commercial Auto No-Fault (PIP)	-	-	-	-	-	-	-	-	-
19.4	Other Commercial Auto Liability	-	-	-	-	-	-	-	-	-
21.1	Private Passenger Auto Phys Damage	-	-	-	-	-	-	-	-	-
21.2	Commercial Auto Physical Damage	-	-	-	-	-	-	-	-	-
22.0	Aircraft (All Perils)	-	-	-	-	-	-	-	-	-
23.0	Fidelity	-	-	-	-	-	-	-	-	-
24.0	Surety	222,781	50,914	23%	25,036	7,024	28%	30,639	8,227	27%
26.0	Burglary and Theft	-	-	-	-	-	-	-	-	-
27.0	Boiler and Machinery	-	-	-	-	-	-	-	-	-
28.0	Credit	-	-	-	-	-	-	-	-	-
28.0	Credit Disability	-	-	-	-	-	-	-	-	-
30.0	Warranty	-	-	-	-	-	-	-	-	-
34.0	Prepaid Legal	-	-	-	-	-	-	-	-	-
34.0	Bail Bonds	-	-	-	-	-	-	-	-	-
34.0	Glass	-	-	-	-	-	-	-	-	-
34.0	Title	-	-	-	-	-	-	-	-	-
34.0	Livestock	-	-	-	-	-	-	-	-	-
34.0	Industrial Extended Coverage	-	-	-	-	-	-	-	-	-
34.0	Mobile Home Multiple Peril	-	-	-	-	-	-	-	-	-
34.0	Mobile Home Physical Damage	-	-	-	-	-	-	-	-	-
34.0	Reinsurance	-	-	-	-	-	-	-	-	-
34.0	Other	-	-	-	-	-	-	-	-	-
34.0	Other	-	-	-	-	-	-	-	-	-
34.0	Other	-	-	-	-	-	-	-	-	-
	Total	222,781	50,914	23%	25,036	7,024	28%	30,639	8,227	27%

* Include loss adjustment expenses.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
AmTrust Financial Services, Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of AmTrust Financial Services, Inc. as of December 31, 2008 and 2007 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmTrust Financial Services, Inc. at December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 13, 2009 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP
New York, New York
March 13, 2009

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Par Value Per Share)

	December 31,	
	2008	2007
ASSETS		
Investments:		
Fixed maturities, held-to-maturity, at amortized cost (fair value $50,242; $162,661)	$ 48,881	$ 161,901
Fixed maturities, available-for-sale, at market value (amortized cost $988,779; $745,132)	910,376	726,749
Equity securities, available-for-sale, at market value (cost $84,090; $106,956)	28,828	79,037
Short-term investments	167,845	148,541
Other investments	13,457	28,035
Total investments	1,169,387	1,144,263
Cash and cash equivalents	192,053	145,337
Assets under management	—	18,541
Accrued interest and dividends	9,028	9,811
Premiums receivable, net	419,577	257,756
Note receivable – related party	21,591	20,746
Funds held with reinsurance companies	110	255
Reinsurance recoverable	363,608	225,941
Reinsurance recoverable – related party	221,214	55,973
Prepaid reinsurance premium	128,519	107,585
Prepaid reinsurance premium – related party	243,511	137,099
Prepaid expenses and other assets	72,221	25,876
Federal income tax receivable	4,667	—
Deferred policy acquisition costs	103,965	70,903
Deferred income taxes	76,910	36,502
Property and equipment, net	15,107	12,974
Goodwill	49,794	10,549
Intangible assets	52,631	42,683
	$3,143,893	$2,322,794
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss expense reserves	$1,014,059	$ 775,392
Unearned premiums	759,915	527,758
Ceded reinsurance premiums payable	59,990	39,464
Ceded reinsurance premium payable – related party	102,907	38,792
Reinsurance payable on paid losses	8,820	4,266
Federal income tax payable	—	4,123
Funds held under reinsurance treaties	228	4,400
Securities sold but not yet purchased, market	22,608	18,426
Securities sold under agreements to repurchase, at contract value	284,492	146,403
Accrued expenses and other current liabilities	144,304	113,800
Derivatives liabilities	1,439	4,101
Note payable on collateral loan – related party	167,975	113,228
Non interest bearing note payable – net of unamortized discount of $2,439	27,561	—
Term loan	33,333	—
Junior subordinated debt	123,714	123,714
Total liabilities	2,751,345	1,913,867
Commitments and contingencies		
Minority interest	—	18,541
Stockholders' equity:		
Common stock, $.01 par value; 100,000 shares authorized, 84,146 and 84,047 issued in 2008 and 2007, respectively; 60,033 and 59,953 outstanding in 2008 and 2007, respectively	842	841
Preferred stock, $.01 par value; 10,000 shares authorized	—	—
Additional paid-in capital	539,421	535,123
Treasury stock at cost; 24,113 and 24,094 shares in 2008 and 2007, respectively	(294,803)	(294,671)
Accumulated other comprehensive loss	(105,815)	(31,688)
Retained earnings	252,903	180,781
Total stockholders' equity	392,548	390,386
	$3,143,893	$2,322,794

See accompanying notes to consolidated statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Date)

	Year Ended December 31,		
	2008	2007	2006
Revenues:			
Premium income:			
Net premium written	$ 554,913	$419,881	$ 436,314
Change in unearned premium	(115,816)	24,355	(107,302)
Net earned premium	439,097	444,236	329,012
Ceding commission – primarily related party	115,474	62,842	2,938
Commission and fee income	28,978	20,368	12,403
Net investment income	57,598	50,887	27,583
Net realized gain (loss) on investments	(64,585)	4,644	14,783
Other investment (loss) income on managed assets	(2,900)	(6,053)	244
Total revenues	573,662	576,924	386,963
Expenses:			
Loss and loss adjustment expense	238,303	276,986	210,140
Acquisition costs and other underwriting expenses	203,747	155,366	95,321
Other underwriting expense	17,318	13,816	10,561
Total expenses	459,368	446,168	316,022
Operating income from continuing operations	114,294	130,756	70,941
Other income (expenses):			
Foreign currency gain	2,700	129	833
Interest expense	(16,399)	(10,089)	(5,326)
Total other expenses	(13,699)	(9,960)	(4,493)
Income from continuing operations before provision for income tax expense and minority interest	100,595	120,796	66,448
Income tax expense	20,567	36,709	17,779
Minority interest in net income of subsidiary	(2,900)	(6,053)	244
Income from continuing operations	82,928	90,140	48,425
Discontinued operations:			
Other income (loss) from discontinued operations	—	—	431
Income from discontinued operations	—	—	431
Net income	82,928	90,140	48,856
Basic earnings per share:			
Earnings from continuing operations	$ 1.38	$ 1.50	$ 0.86
Earnings from discontinued operations		—	0.01
Net income per basic share	$ 1.38	$ 1.50	$ 0.87
Diluted earnings per share:			
Earnings from continuing operations	$ 1.37	$ 1.49	$ 0.86
Earnings from discontinued operations		—	0.01
Net income per diluted share	$ 1.37	$ 1.49	$ 0.87
Weighted average common shares outstanding:			
Basic	59,991	59,958	56,315
Diluted	60,671	60,674	56,315
Dividends declared per common share:	$ 0.18	$ 0.11	$ 0.04

See accompanying notes to consolidated statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)
Years Ended December 31, 2008, 2007, 2006

	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2005	241	60,000	12,406	—	(5,014)	50,778	118,411
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	48,856	48,856
Foreign currency translation	—	—	—	—	4,664	—	4,664
Unrealized holding gain on investments	—	—	—	—	2,345	—	2,345
Reclassification adjustment for securities sold during the year	—	—	—	—	1,710	—	1,710
Comprehensive income							57,575
Issuance of common stock	256	—	165,610	—	—	—	165,866
Stock option compensation	—	—	1,025	—	—	—	1,025
Conversion of preferred stock	103	(60,000)	59,897	—	—	—	—
Common stock dividend	—	—	—	—	—	(2,398)	(2,398)
Balance, December 31, 2006	600	—	238,938	—	3,705	97,236	340,479
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	90,140	90,140
Foreign currency translation	—	—	—	—	(2,011)	—	(2,011)
Unrealized holding loss on investments	—	—	—	—	(32,954)	—	(32,954)
Reclassification adjustment for securities sold during the year	—	—	—	—	(428)	—	(428)
Comprehensive income							54,747
Stock option compensation	—	—	1,830	—	—	—	1,830
Stock repurchase	—	—	—	(59)	—	—	(59)
Acquisition of subsidiary	—	—	—	(294,612)	—	—	(294,612)
Issuance of common stock	241	—	294,355	—	—	—	294,596
Common stock dividend	—	—	—	—	—	(6,595)	(6,595)
Balance, December 31, 2007	$841	$ —	$535,123	$(294,671)	$ (31,688)	$180,781	$ 390,386
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	82,928	82,928
Foreign currency translation	—	—	—	—	(13,006)	—	(13,006)
Unrealized holding loss on investments	—	—	—	—	(71,502)	—	(71,502)
Reclassification adjustment for securities sold during the year	—	—	—	—	10,381	—	10,381
Comprehensive income							8,801
Stock option compensation	—	—	3,136	—	—	—	3,136
Stock repurchase	—	—	—	(132)	—	—	(132)
Exercise of stock options	1	—	1,162	—	—	—	1,163
Common stock dividend	—	—	—	—	—	(10,806)	(10,806)
Balance, December 31, 2008	$842	$ —	$539,421	$(294,803)	$(105,815)	$252,903	$ 392,548

See accompanying notes to consolidated statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net income from continuing operations	$ 82,928	$ 90,140	$ 48,425
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	8,069	5,022	4,671
Realized loss (gain) on marketable securities	4,825	(13,011)	(14,783)
Non-cash write-down of marketable securities	52,773	8,367	—
Bad debt expense	2,804	2,225	2,466
Stock option compensation	3,136	1,830	1,025
Discount on notes payable	716	—	—
Change in deferred tax asset	(40,408)	(26,960)	(146)
Foreign currency gain	(2,700)	(129)	(833)
Income (loss) from discontinued operations	—	—	431
Changes in assets – (increase) decrease:			
Premiums receivable	(117,653)	(62,448)	(69,175)
Reinsurance recoverable	(137,639)	(11,234)	(26,460)
Reinsurance recoverable – related party	(165,241)	(55,973)	—
Deferred policy acquisition costs	(33,062)	(14,469)	(19,312)
Prepaid reinsurance premiums	(20,934)	(32,096)	(53,158)
Prepaid reinsurance premiums – related party	(106,412)	(137,099)	—
Prepaid expenses and other assets	(48,399)	8,259	(5,696)
Receivable from discontinued operations	—	—	3,571
Changes in liabilities – increase (decrease):			
Reinsurance payable	(25,182)	16,563	5,246
Reinsurance payable – related party	64,115	38,792	—
Loss and loss expense reserves	238,667	160,612	128,630
Unearned premiums	232,077	146,266	166,353
Funds held under reinsurance treaties	(4,172)	(5,548)	6,914
Note payable – related party	54,747	113,228	—
Accrued expenses and other current liabilities	21,253	15,881	12,867
Net cash provided by operating activities	64,308	248,218	191,036
Cash flows from investing activities:			
Purchases of held to maturity fixed maturities	—	(61,078)	(313,239)
Purchases of available for sale fixed maturities	(600,926)	(1,096,784)	(263,050)
Purchases of equity securities	(44,834)	(141,092)	(104,738)
Purchases of other investments	(488)	(12,184)	(3,439)
Proceeds from maturities of held to maturity fixed maturities	113,020	265,728	97,792
Proceeds from sales of available for sale fixed maturities	399,088	581,642	227,605
Proceeds from sales of equity securities	28,441	130,342	73,327
Proceeds from (purchases of) short term investments, net	(19,304)	47,599	(121,408)
Proceeds from other investments	15,065	—	—
Note receivable – related party	(2,000)	(18,000)	—
Acquisition of a subsidiary, net of cash obtained	(55,883)	(35,742)	—
Acquisition of intangible assets from renewal rights	(3,204)	(1,800)	(12,074)
Capital expenditures	(4,975)	(1,751)	(2,708)
Net cash provided by (used in) investing activities	(176,000)	(343,120)	(421,932)
Cash flows from financing activities:			
Proceeds from issuance of note payable	40,000	—	—
Repayment of notes payable	(6,667)	—	(25,000)
Issuance of junior subordinate debentures	—	40,000	30,000
Repurchase agreements, net	138,089	146,402	—
Issuance of common stock	—	—	165,866
Stock option conversion	1,163	—	—
Purchase of shares	(132)	(59)	—
Debt financing fees	(52)	(820)	—
Dividends on common stock	(10,200)	(5,396)	(1,199)
Net cash provided (used) by financing activities	162,201	180,127	169,667
Effect of exchange rate changes on cash	(3,793)	196	5,298
Net (decrease) increase in cash and cash equivalents	46,716	85,421	(55,931)
Cash and cash equivalents, beginning year	145,337	59,916	115,847
Cash and cash equivalents, end of year	$ 192,053	$ 145,337	$ 59,916
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	$ 14,428	$ 9,240	$ 5,381
Debt issuance costs	77	1,238	928
Income taxes	21,805	35,632	28,163

See accompanying notes to consolidated statements.

Supplemental non-cash financing activity:

In 2008, the Company issued a promissory note to Unitrin in the amount of $30,000 in connection with the acquisition of UBI business. The note is non interest bearing and requires four annual principal payments of $7,500 beginning on June 1, 2009 through June 1, 2012. The Company calculated imputed interest of $3,155 based on interest rates available to the Company at the date of acquisition which was 4.5%. Accordingly, the note's carrying balance was adjusted to $26,845 at the acquisition. The Company included $716 of amortized discount on the note in its results of operations for the year ended December 31, 2008, respectively. The note's carrying value at December 31, 2008 was $27,561.

In 2007, the Company's principal shareholders contributed 24,089 shares of common stock with a carrying value of $294,612 in connection with a series of mergers to simplify the stock ownership of the Company. As a result, the Company issued 24,088 shares of common stock with a carrying value of $294,596.

In 2006, the Company converted 1,000 shares of preferred stock with a carrying value of $60 million into 10.3 million shares of common stock.

See accompanying notes to consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Data)

1. Nature of Operations

AmTrust Financial Services, Inc. (the "Company") is an insurance holding company formed under the laws of Delaware. Through its wholly-owned subsidiaries, the Company provides specialty property and casualty insurance focusing on workers' compensation for small business, specialty risk and extended warranty coverage, and specialty middle-market property and casualty coverages.

The Company transacts business through eleven insurance company subsidiaries: Technology Insurance Company, Inc. ("TIC"), Rochdale Insurance Company ("RIC"), Wesco Insurance Company ("Wesco" or "WIC"), Associated Industries Insurance Company, Inc. ("AIIC"), Milwaukee Casualty Insurance Company ("MCIC"), Security National Insurance Company ("SNIC"), Trinity Universal Insurance Company of Kansas, Inc. ("TUIC") and Trinity Lloyd's Insurance Company ("TLIC"), which are domiciled in New Hampshire, New York, Delaware, Florida, Wisconsin, Texas and Kansas respectively; and AmTrust International Insurance Ltd. ("AII"), AmTrust International Underwriters Limited ("AIU") and IGI Insurance Company, Ltd. ("IGI"), which are domiciled in Bermuda, Ireland and England, respectively.

2. Significant Accounting Policies

Basis of Reporting — The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries. The Company uses the equity method of accounting for its investment in Warrantech in which it owns a 27% ownership interest. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Premiums — Insurance premiums, other than specialty risk and extended warranty, are recognized as earned on the straight-line basis over the contract period. Insurance premiums on specialty risk and extended warranty are earned based on estimated program coverage period. These estimates are based on the expected distribution of coverage periods by contract at inception, because a single contract may contain multiple coverage period options, these estimates are revised based on the actual coverage period selected by the insured. Unearned premiums represent the portion of premiums written which is applicable to the unexpired term of the contract or policy in force. Premium adjustments on contracts and audit premiums are based on estimates made over the contract period. Premiums earned but not yet billed to insureds are estimated and accrued, net of related costs. These estimates are subject to the effects of trends in payroll audit adjustments. Although considerable variability is inherent in such estimates, management believes that the accrual for earned but unbilled premiums is reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The Company historically has used a percentage of premium for establishing its allowance for doubtful accounts. The Company reviews its bad debt write-offs at least annually and adjusts its premium percentage as required. Allowance for doubtful accounts were approximately $8,131 and $7,828 at December 31, 2008 and 2007, respectively.

Ceding Commission Revenue — Commissions on reinsurance premiums ceded are earned in a manner consistent with the recognition of the direct acquisition costs of underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured. Certain reinsurance agreements contain provisions whereby the ceding commission rates vary based on the loss experience under the agreements. The Company records ceding commission revenue based on its current estimate of subject losses. The Company records adjustments to the ceding commission revenue in the period that changes in the estimated losses are determined.

2. Significant Accounting Policies – (continued)

Loss and Loss Adjustment Expenses — Loss and loss adjustment expenses ("LAE") represent the estimated ultimate net costs of all reported and unreported losses incurred through December 31. The reserves for unpaid losses and LAE are estimated using individual case-basis valuations and statistical analyses and are not discounted. Although considerable variability is inherent in the estimates of reserves for losses and LAE, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

Cash and Cash Equivalents — Cash and cash equivalents are presented at cost, which approximates fair value. The Company considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents. The Company maintains its cash balances at several financial institutions. The Federal Deposit Insurance Corporation ("FDIC") secures accounts up to $250,000 at these institutions. Management monitors balances in excess of insured limits and believes they do not represent a significant credit risk to the Company.

Investments — The Company accounts for its investments in accordance with Statement of Financial Accounting Standards No. 115, *"Accounting for Certain Investments in Debt and Equity Securities"* ("SFAS 115"), which requires that fixed-maturity and equity securities that have readily determined fair values be segregated into categories based upon the Company's intention for those securities. In accordance with SFAS 115, the Company has classified certain of its fixed-maturity securities as held to maturity and certain of its fixed-maturities and equity securities as available-for-sale. The Company may sell its available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors.

Available for sale fixed-maturity securities and equity securities are reported at their estimated fair values based on quoted market prices or a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of comprehensive income in stockholders' equity. Realized gains and losses are determined on the specific identification method.

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. In accordance with FSP FAS 115-1, "Other-Than-Temporary Impairment and Its Application to Certain Investments.", the Company's Investment Committee ("Committee") evaluates each security which has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment. The Committee uses a set of quantitative and qualitative criteria to review the investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. Some of the criteria the Committee consider include:

- how long and by how much the fair value of the security has been below its amortized cost;
- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings;
- the intent and ability to keep the security for a sufficient time period for it to recover its value;
- any reduction or elimination of dividends, or nonpayment of scheduled interest payments; and
- the occurrence of discrete credit event resulting in (i) the issuer defaulting on material outstanding obligation (ii) the issuer seeking protection under bankruptcy law.

Other-than-temporary impairment ("OTTI") losses result in a permanent reduction of the cost basis of the underlying investment. During 2008 and 2007, the Company recorded impairment write-downs of $52.8 million and $8.4 million, respectively after determining that certain of its investments were OTTI. During 2006, the Company did not record any OTTI.

2. Significant Accounting Policies – (continued)

The following are the types of investments the Company has:

(a) Short-term investments — Short term investments are carried at cost, which approximates fair value, and include investments with maturities between 91 days and less than one year at date of acquisition. As of December 31, 2008 and 2007, short term investments consisted primarily of money market investments.

(b) Fixed maturities and equity securities — Fixed maturities (bonds and certificates of deposit) that the Company has the specific intent and ability to hold until maturity are carried at amortized cost. Fixed maturities that the Company does not have the positive intent and ability to hold to maturity and all equity securities (common stocks, mutual funds and non-redeemable preferred stock) are classified as available-for-sale and carried at fair value. Unrealized gains or losses on available-for-sale securities are reported as a component of accumulated other comprehensive income.

(c) Mortgage and asset backed securities — For mortgage and asset backed securities, the Company recognizes income using the retrospective adjustment method based on prepayments and the estimated economic life of the securities. The effective yield reflects actual payments to date plus anticipated future payments.

(d) Limited partnerships — The Company uses the equity method of accounting for investments in limited partnerships in which its ownership interest of the limited partnership enables the Company to influence the operating or financial decisions of the investee company, but the Company's interest in the limited partnership does not require consolidation. The Company's proportionate share of equity in net income of these unconsolidated affiliates is reported in net investment income.

(e) Derivatives and Hedging Activities — The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio. Derivatives, as defined in FAS 133, are financial arrangements among two or more parties with returns linked to an underlying equity, debt, commodity, asset, liability, foreign exchange rate or other index. Unless subject to a scope exclusion, the Company carries all derivatives on the consolidated balance sheet at fair value. The changes in fair value of the derivative are presented as a component of operating income. The Company primarily utilizes the following types of derivatives:

- Credit default swap contracts (''CDS''), which, are valued in accordance with the terms of each contract based on the current interest rate spreads and credit risk of the referenced obligation of the underlying issuer and interest accrual through valuation date. Fair values are based on the price of the underlying bond on the valuation date. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract. Such amounts are limited to the total equity of the account;

- Interest rate swaps (''IS''), which are valued in terms of the contract between the Company and the issuer of the swaps, are based on the difference between the stated floating rate of the underlying indebtedness, in this case LIBOR, and a predetermined fixed rate for such indebtedness with the result that the indebtedness carries a net fixed interest rate; and

- Contracts for difference contracts (''CFD''), which, are valued based on the market price of the underlying stock. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract.

(f) Securities sold under agreements to repurchase, at contract value — Securities sold under agreements to repurchase are accounted for as collateralized borrowing transactions and are recorded at their contracted repurchase amounts, plus accrued interest. The Company minimizes the credit risk

2. Significant Accounting Policies – (continued)

that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring exposure and collateral value and generally requiring additional collateral to be deposited with AmTrust when necessary.

Net investment income consists primarily of interest and dividends less expenses. Interest on fixed maturities, adjusted for any amortization of premium or discount, is recorded as income when earned. Investment expenses are accrued as incurred. Realized investment gains or losses are computed using the specific costs of securities sold, and, if applicable, include write-downs on investments having other-than-temporary decline in value.

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in SFAS No. 157, "*Fair Value Measurements*," ("SFAS 157"). The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the SFAS 157 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. Fair values of other financial instruments approximate their carrying values.

Deferred Policy Acquisition Costs — The Company defers commission expenses, premium taxes and assessments as well as certain marketing, sales, underwriting and safety costs that vary with and are primarily related to the acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. The Company may realize deferred policy acquisition costs only if the ratio of loss and loss adjustment expense reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%, the Company could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve. The Company considers anticipated investment income in determining whether a premium deficiency relating to short duration contracts exists. The change in net deferred acquisition costs was $33,062, $27,839 and $19,313 for the years ended December 31, 2008, 2007 and 2006, respectively. The amortization for deferred acquisition costs was $70,250, $36,551 and, $21,745 in 2008, 2007 and 2006, respectively.

Reinsurance — Reinsurance premiums, losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums earned and losses incurred ceded to other companies have been recorded as a reduction of premium revenue and losses and LAE. Commissions allowed by reinsurers on business ceded have been recorded as ceding commission revenue. Reinsurance recoverables are reported relating to the portion of reserves and paid losses and LAE that are ceded to other companies. The Company remains contingently liable for all loss payments, in the event of failure to collect from the reinsurer.

Assessments — Insurance related assessments are accrued in the period in which they have been incurred. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. The Company is subject to a variety of assessments. Among such assessments are state guaranty funds as well workers' compensation second injury funds. State guaranty funds assessments are used by state insurance oversight boards to cover losses of policyholders of insolvent insurance companies and for the operating expenses of such agencies. The Company uses estimated assessment rates in determining the appropriate assessment expense and accrual. The Company uses estimates derived from state regulators and/or NAIC Tax and Assessments Guidelines. Assessment expense for the years ended December 31, 2008, 2007 and 2006 was approximately $14,464, $9,640 and $5,511, respectively.

2. Significant Accounting Policies – (continued)

Property and Equipment — Property and equipment are recorded at cost. Maintenance and repairs are charged to operations as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, as follows:

Building	40 years
Equipment	5 years
Computer equipment and software	3 to 5 years
Leasehold improvements	Lesser of lease term or 15 years

The Company accounts for its internal use software under Statement of Position (''SOP'') No. 98-1, ''Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.'' Accordingly, the Company capitalizes costs of computer software developed or obtained for internal use that are specifically identifiable, have determinable lives and relate to future use.

Goodwill and Intangible Assets — The Company accounts for goodwill and intangible assets in accordance with SFAS 141, ''Business Combinations.'' A purchase price paid that is in excess of net assets (''goodwill'') arising from a business combination is recorded as an asset, and is not amortized. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if events changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statement of operations. Goodwill and intangible assets with an indefinite useful life are carried at $68,645 and $22,329 as of December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, intangible assets with a finite life were valued at $33,780 and $30,903, respectively. For the years ended December 31, 2008, 2007 and 2006, the Company amortized approximately $4,106, $2,800 and $3,400, respectively related to its intangible assets with a finite life.

Income Taxes — The Company joins its domestic subsidiaries in the filing of a consolidated Federal income tax return and is party to a Federal income tax allocation agreement. Under the tax sharing agreement, the Company pays to or receives from its subsidiaries the amount, if any, by which the group's Federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated Federal return.

Effective for the year ended December 31, 2004, AmTrust International Insurance Ltd. (''AII''), which operates in Bermuda, joined the Company's other eligible domestic subsidiaries in the filing of the consolidated tax return. This was due to the nature of the foreign subsidiary's activities in the United States. Other foreign subsidiaries file in their respective country of domicile, as required.

Deferred income taxes reflect the impact of ''temporary differences'' between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The deferred tax asset primarily consists of the book versus tax differences for premiums earned, loss and loss adjustment expense reserve discounting, policy acquisition costs, earned but unbilled premiums, and unrealized holding gains and losses on marketable equity securities. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income, primarily unrealized investment gains and losses and foreign currency translation gains and losses, are recorded directly to other comprehensive income. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense.

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that we will generate future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning

2. Significant Accounting Policies – (continued)

strategies and projected future taxable income in making this assessment. If necessary, the Company establish a valuation allowance to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues.

Under FIN 48, the Company recognizes tax benefits only for tax positions that are more likely than not to be sustained upon examination by taxing authorities. The Company's policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. At the date of adoption, the amount of interest and penalties included in the consolidated balance sheet was $0. The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. Tax years 2004 through 2007 are still subject to examination. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

Foreign Currency — The Company assigns functional currencies to its foreign operations, which are generally the currencies of the local operating environment. Foreign currency amounts are remeasured to the functional currency, and the resulting foreign exchange gains and losses are reflected in earnings. Functional currency amounts are then translated into U.S. dollars. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of accumulated other changes in equity from non-owner sources. The foreign currency remeasurement and translation are calculated using current exchange rates for the items reported on the balance sheets and average exchange rates for items recorded in earnings.

Stock Compensation Expense — Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R) "Share-Based Payment" and began recognizing compensation expense for its share-based payments based on the fair value of the awards. Share-based payments include restricted stock and stock option grants under the Company's 2005 Equity Incentive Plan. SFAS 123(R) requires share-based compensation expense recognized since January 1, 2006, to be based on the following: a) grant date fair value estimated in accordance with the original provisions of SFAS 123 for unvested options granted prior to the adoption date; and b) grant date fair value estimated in accordance with the provisions of SFAS 123(R) for unvested options granted subsequent to the adoption date.

Earnings Per Share — Basic earnings per share are computed based on the weighted-average number of common shares outstanding. Net income has been adjusted for the effect of the dividends accumulated on the cumulative preferred stock. Dilutive earnings per share are computed using the weighted-average number of common shares outstanding during the period adjusted for the dilutive impact of share options and unvested restricted shares using the treasury stock method.

Treasury Stock — The Company accounts for the treasury stock at the repurchase price as a reduction to stockholders' equity.

Concentration and Credit Risk — Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, investments and accounts receivable. Investments are diversified through many industries and geographic regions through the use of money managers who employ different investment strategies. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and investments. At December 31, 2008 and 2007, the outstanding premiums and notes receivable balance is generally diversified due to the number of entities composing the Company's customer base. To reduce credit risk, the Company performs ongoing evaluations of its customers' financial condition. The Company also has

2. Significant Accounting Policies – (continued)

receivables from its reinsurers. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company periodically evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. It is the policy of management to review all outstanding receivables at period end as well as the bad debt write-offs experienced in the past and establish an allowance for doubtful accounts, if deemed necessary.

Minority Interest — The ownership interest in consolidated subsidiaries of non-controlling interests is reflected as minority interest. The Company's consolidation principles would also consolidate any entity in which the Company would be deemed a primary beneficiary. Minority interest expense represents such non-controlling interests' in the earnings of that entity. All significant transactions and account balances between the Company and the subsidiaries were eliminated during consolidation.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions, which include the reserves for losses and loss adjustment expenses, are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with the recognition and amortization of deferred policy acquisition costs, the determination of fair value of invested assets and related impairments, and the determination of goodwill and intangible impairments require considerable judgment by management. On an on-going basis, management reevaluates its assumptions and the methods of calculating its estimates. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

Reclassifications — Certain accounts in the prior years' consolidated financial statements have been reclassified for comparative purposes to conform to the current year's presentation. This did not have any impact on the net income of the Company.

Recent Accounting Pronouncements — In October 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP 157-3"). FSP 157-3 clarifies the application of FASB Statement No. 157, Fair Value Measurements, in a market that is not active and provides considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP was effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate. The disclosure provisions of Statement 154 for a change in accounting estimate are not required for revisions resulting from a change in valuation technique or its application. The adoption of the FSP did not have a material impact on the Company's financial condition or results of operations.

In June 2008, the FASB issued FSP No. 03-6-1, "*Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*" ("FSP 03-6-1"). FSP 03-6-1 clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method described in Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), "*Earnings Per Share*" This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and requires all presented prior-period earnings per share data to be adjusted retrospectively. The Company does not believe the adoption will have a material impact on its financial condition or results of operations.

2. Significant Accounting Policies – (continued)

In May 2008, the FASB issued FASB Statement No. 163 (''SFAS 163''), ''Accounting for Financial Guarantee Insurance Contracts'', an interpretation of SFAS Statement No. 60. SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS 163 also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Those clarifications will increase comparability in financial reporting of financial guarantee insurance contracts by insurance enterprises. SFAS 163 also requires expanded disclosures about financial guarantee insurance contracts. SFAS 163 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. We are currently evaluating the impact, if any, that SFAS 163 will have on our consolidated financial statements.

In May 2008, the FASB issued SFAS 162, ''The Hierarchy of Generally Accepted Principles'' (''SFAS No. 162''). This statement supersedes the existing hierarchy contained in the U.S. auditing standards. The existing hierarchy was carried over to Statement No. 162 essentially unchanged. The statement becomes effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to the auditing literature. The new hierarchy is not expected to change current accounting practice in any area.

In April 2008, the FASB issued FSP No. 142-3, ''*Determination of the Useful Life of Intangible Assets*'' (''FSP 142-3''). FSP 142-3 amends the factors that should be considered in developing assumptions about renewal or extension used in estimating the useful life of a recognized intangible asset under Statement No. 142, ''*Goodwill and Other intangible Assets*'' (''SFAS No. 142''). This standard is intended to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under Statement No. 141R and other GAAP. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The measurement provisions of this standard will apply only to intangible assets of the Company acquired after the effective date.

In March 2008, the FASB issued SFAS 161, ''*Disclosures about Derivative Instruments and Hedging Activities*'' (''SFAS No. 161''). Statement 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 ''*Accounting for Derivative Instruments and Hedging Activities*'' and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. Statement 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact, if any, that Statement 161 will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, ''*Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*''. SFAS No. 160 amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. In addition, it clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated statements. SFAS 160 is effective on a prospective basis beginning January 1, 2009, except for presentation and disclosure requirements which are applied on a retrospective basis for all periods presented. The Company does not believe the adoption will have a material impact on its financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), ''*Business Combinations*''. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree and recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase.

2. Significant Accounting Policies – (continued)

SFAS No. 141(R) also sets forth the disclosures required to be made in the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, SFAS No. 141(R) will be applied by the Company to business combinations occurring on or after January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*". Under SFAS 159, companies may elect to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS 159 was effective for us beginning in the first quarter of fiscal 2008. The Company chose not to elect the fair value option. Therefore, SFAS 159 did not impact its consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*", which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB FSP 157-2 which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. Effective January 1, 2008, we adopted SFAS 157 for financial assets and liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS 157 for financial assets and liabilities did not have a material impact on our consolidated financial position, results of operations or cash flows. See Note 4. "Fair Value of Financial Instruments" for information and related disclosures regarding our fair value measurements.

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140* (FAS 155). FAS 155 requires that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or hybrid instruments that contain an embedded derivative requiring bifurcation and permits entities to fair value any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. FAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement (new basis) event occurring after the beginning of an entity's fiscal year that begins after September 15, 2006. In January 2007, the FASB released Statement 133 Implementation Issue No. B40, *Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets* (B40). B40 provides a limited scope exception from paragraph 13(b) of FAS 133 for securitized interests that contain only an embedded derivative that is tied to the prepayment risk of the underlying prepayable financial assets if certain criteria are met. B40 is effective upon the adoption of FAS 155 with certain exceptions. The Company adopted FAS 155 effective January 1, 2007 and it did not have a material impact on its financial condition or results of operations.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)" (FIN 48) to be effective for fiscal years beginning after December 15, 2006. FIN 48 sets forth criteria for recognition and measurement of tax positions taken or expected to be taken in a tax return. FIN 48 requires that companies recognize the impact of a tax position if that position is "more likely than not" of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest, penalties, accounting in interim periods and

2. Significant Accounting Policies – (continued)

disclosure. The adoption did not have a material effect on the Company's financial statements and we do not expect the change to have a significant impact on our results of operations or financial position during the next twelve months.

Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* ("SOP 05-1"), became effective January 1, 2007. SOP 05-1 provides guidance on accounting for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in FAS 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*. The SOP defines an internal replacement as a modification in product benefits, features, rights, or coverage that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The adoption of SOP 05-1 did not have a material impact on the financial condition or results of operations of the Company.

3. Investments

(a) Available-for-Sale Securities

The amortized cost, estimated fair value and gross unrealized appreciation and depreciation of equity securities are presented in the tables below:

Year Ended December 31, 2008	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stocks	$ 6,765	$ —	$ (1,450)	$ 5,315
Common stocks	77,325	189	(54,001)	23,513
U.S. treasury securities	13,892	1,820	—	15,712
U.S. government agencies	18,986	1,332	—	20,318
U.S. agency – Mortgage backed securities	232,335	8,991	—	241,326
U.S. agency – Collateralized mortgage obligations	213,178	170	(7,895)	205,453
Municipal bonds	45,773	367	(932)	45,208
Commercial mortgage backed securities	3,773	—	(383)	3,390
Asset backed securities	5,505	1	(438)	5,068
Corporate bonds	455,337	1,494	(82,930)	373,901
	$1,072,869	$14,364	$(148,029)	$939,204

Year Ended December 31, 2007	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stocks	$ 750	$ —	$ (246)	$ 504
Common stocks	106,206	2,896	(30,569)	78,533
U.S. treasury securities	5,554	170	—	5,724
U.S. government agencies	46,815	464	(3)	47,276
U.S. agency – Mortgage backed securities	39,450	671	(5)	40,116
U.S. agency – Collateralized mortgage obligations	239,368	283	(514)	239,137
Municipal bonds	10,023	406	—	10,429
Commercial mortgage backed securities	4,231	79	—	4,310
Asset backed securities	9,946	78	—	10,024
Corporate bonds	389,745	959	(20,971)	369,733
	$852,088	$6,006	$(52,308)	$805,786

3. Investments – (continued)

Proceeds from the sale of investments in available-for-sale securities during the years ended December 31, 2008, 2007, and 2006 were approximately $427,529, $711,984 and $300,932, respectively.

(b) Held-to-Maturity Securities

The amortized cost, estimated fair value and gross unrealized appreciation and depreciation of fixed maturity investments are presented in the tables below:

Year Ended December 31, 2008	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. treasury securities	$ 2,139	$ 143	$ —	$ 2,282
U.S. government agencies	1,116	181	—	1,297
U.S. agency – Collateralized mortgage obligations	157	2	—	159
U.S. agency – Mortgage backed securities	45,469	1,181	(146)	46,504
	$48,881	$1,507	$(146)	$50,242

Year Ended December 31, 2007	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. treasury securities	$ 13,350	$ 104	$ (2)	$ 13,452
U.S. government agencies	96,898	711	(23)	97,586
U.S. agency – Collateralized mortgage obligations	205	—	—	205
U.S. agency – Mortgage backed securities	51,448	366	(396)	51,418
	$161,901	$1,181	$(421)	$162,661

Proceeds from sale of investments in held-to-maturity securities during the years ended December 31, 2008, 2007 and 2006 were $113,020, $265,728 and $97,792, respectively. At times there are “sales” of held-to-maturity securities. These result from either certain securities being called by their issuers or from the receipt of monthly principal payments from FNMA and GNMA securities based on mortgage prepayments by some of the mortgagees.

A summary of the Company’s held-to-maturity and available-for-sale fixed maturity securities at December 31, 2008, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2008	
Held-to-Maturity Debt Securities:	Amortized Cost	Fair Value
Due in one year or less	$ 704	$ 711
Due after one through five years	400	421
Due after five through ten years	2,151	2,447
Due after ten years	—	—
Mortgage backed securities	45,626	46,663
Total fixed maturities	$48,881	$50,242

3. Investments – (continued)

Available-for-Sale Debt Securities:	2008 Amortized Cost	2008 Fair Value
Due in one year or less	$ 27,523	$ 26,594
Due after one through five years	157,321	138,844
Due after five through ten years	262,800	211,144
Due after ten years	91,084	83,314
Mortgage backed securities	450,051	450,480
Total fixed maturities	$988,779	$910,376

(c) Investment Income

Net investment income for the years ended December 31, 2008, 2007 and 2006 was derived from the following sources:

	2008	2007	2006
Fixed maturity securities	$48,919	$37,989	$19,869
Equity securities	934	1,691	599
Cash and short term investments	14,424	10,369	8,067
Loss on other investments	—	(523)	—
Loss on equity investment in Warrantech	(991)	(749)	—
Interest on note receivable – related party	3,170	2,796	—
	66,456	51,573	28,535
Less: Investment expenses and interest expense on securities sold under agreement to repurchase	(8,858)	(686)	(952)
	$57,598	$50,887	$27,583

(d) Realized Gains and Losses

The table below indicates the gross realized gains and losses for the years ended December 31, 2008, 2007 and 2006.

Year Ended December 31, 2008	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ —	$(10,585)	$(10,585)
Equity securities	2,873	(2,034)	839
Derivatives	533	(2,599)	(2,066)
Write-down of fixed securities	—	(31,389)	(31,389)
Write-down of equity securities	—	(21,384)	(21,384)
	$3,406	$(67,991)	$(64,585)

Year Ended December 31, 2007	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 6,132	$ (1,450)	$ 4,682
Equity securities	14,406	(4,790)	9,616
Derivatives	1,462	(2,749)	(1,287)
Write-down of equity securities	—	(8,367)	(8,367)
	$22,000	$(17,356)	$ 4,644

3. Investments – (continued)

Year Ended December 31, 2006	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 3,083	$ (1,483)	$ 1,600
Equity securities	22,396	(6,399)	15,997
Derivatives	—	(2,814)	(2,814)
	$25,479	$(10,696)	$14,783

(e) Unrealized Gains and Losses

Net unrealized losses on held-to-maturity fixed maturity securities were as follows:

Year Ended December 31,	2008	2007	2006
Net unrealized gains (losses)	$1,361	$ 760	$(2,861)
Increase (decrease) in net unrealized gains (losses)	601	3,261	(661)

Net unrealized gain (loss) on available-for-sale securities were as follows:

Year Ended December 31,	2008	2007	2006
Fixed maturity securities	$ (78,403)	$(18,383)	$ 1,800
Equity securities	(55,262)	(27,919)	3,845
Total net unrealized gain (loss)	(133,665)	(46,302)	5,645
Deferred income tax benefit (expense)	46,783	16,206	(1,976)
Net unrealized losses, net of deferred income tax	(86,882)	(30,096)	3,669
(Increase) decrease in net unrealized losses, net of deferred income tax	$ (56,786)	$(33,765)	$ 5,833

(f) Other Than Temporary Impairment

Quarterly, the Company's Investment Committee (''Committee'') evaluates each security which has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment. The Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. Some of the criteria the Company considers include:

- how long and by how much the fair value of the security has been below its amortized cost;
- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings;
- the intent and ability to keep the security for a sufficient time period for it to recover its value;
- any reduction or elimination of dividends, or nonpayment of scheduled interest payments; and
- the occurrence of discrete credit event resulting in (i) the issuer defaulting on material outstanding obligation (ii) the issuer seeking protection under bankruptcy law.

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. The Company generally considers investments subject to impairment testing when an asset is in an unrealized loss position in excess of 25% of cost basis.

3. Investments – (continued)

Other-than-temporary impairment charges of our fixed-maturities and equity securities for the years ended December 31, 2008, 2007 and 2006 are presented in the table below:

Year Ended December 31,	2008	2007	2006
Equity securities	$21,384	$8,367	$—
Fixed maturity securities	31,389	—	—
	$52,773	$8,367	$—

The following tables present information regarding the Company's invested assets that were in an unrealized loss position as December 31, 2008 and 2007 by amount of time in a continuous unrealized loss position.

	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
December 31, 2008								
Available-for-sale securities:								
Common and preferred stock	$ 10,189	$(11,175)	148	$ 16,437	$ (44,276)	225	$ 26,626	$ (55,451)
U. S. agency – collateralized mortgage obligations	103,732	(4,455)	7	97,095	(3,440)	8	200,827	(7,895)
Commercial mortgage backed securities	3,390	(383)	7	—	—	—	3,390	(383)
Municipal bonds	15,171	(932)	29	—	—	—	15,171	(932)
Asset backed securities	5,045	(422)	8	22	(16)	1	5,067	(438)
Corporate bonds	113,165	(18,355)	79	216,546	(64,575)	86	329,711	(82,930)
Total temporarily impaired -available-for-sale securities	$250,692	$(35,722)	278	$330,100	$(112,307)	320	$580,792	$(148,029)

	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
December 31, 2008								
Held-to-maturity securities:								
U.S. agency – mortgage backed securities	$ 501	$ (2)	1	$ 4,931	$ (144)	20	$ 5,432	$ (146)
Total temporarily impaired – held-to-maturity securities	$ 501	$ (2)	1	$ 4,931	$ (144)	20	$ 5,432	$ (146)

3. Investments – (continued)

	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
December 31, 2007								
Available-for-sale securities:								
Common and preferred stock	$ 48,802	$(21,405)	128	$10,744	$(9,410)	155	$ 59,546	$(30,815)
U. S. government agencies	1,999	(3)	2	—	—	—	1,999	(3)
U. S. agency – Mortgage backed securities	4,245	(5)	1	—	—	—	4,245	(5)
U.S. agency – Collateralized mortgage backed securities	119,973	(514)	9	—	—	—	119,973	(514)
Corporate bonds	276,385	(20,552)	113	13,084	(419)	34	289,469	(20,971)
Total temporarily impaired -available-for-sale securities	$451,404	$(42,479)	253	$23,828	$(9,829)	189	$475,232	$(52,308)

	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
December 31, 2007								
Held-to-maturity securities:								
U.S. treasury securities	$ 714	$ (2)	4	$ —	$ —	—	$ 6,691	$ (2)
Obligations of U.S. government agencies	—	—	—	5,977	(23)	9	5,977	(23)
U.S. agency – mortgage backed securities	1,659	(108)	2	13,322	(288)	27	14,981	(396)
Total temporarily impaired – held-to-maturity securities	$ 2,373	$ (110)	6	$19,299	$ (311)	36	$21,672	$ (421)

(g) Derivatives

The following table presents the notional amounts by remaining maturity of the Company's Total Credit Default Swaps, Interest Rate Swaps and Contracts for Differences as of December 31, 2008:

	Remaining Life of Notional Amount[1]				
	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years	Total
Credit default swaps	$1,369	$ 622	$—	$—	$ 1,991
Interest rate swaps	—	33,333	—	—	33,333
Contracts for differences	—	2,066	—	—	2,066
	$1,369	$36,021	$—	$—	$37,390

(1) Notional amount is not representative of either market risk or credit risk and is not recorded in the consolidated balance sheet.

3. Investments – (continued)

(h) Other

Securities sold but not yet purchased, represent obligations of the Company to deliver the specified security at the contracted price and thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value and as of December 31, 2008 and 2007 was $20,690 and $0 for corporate bonds, respectively, and $1,918 and $18,426 for equity securities, respectively. These transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, may exceed the amount reflected at December 31, 2008. Substantially all securities owned are pledged to the clearing broker to sell or repledge the securities to others subject to certain limitations.

During 2008, the Company entered into repurchase agreements. The agreements are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities, that it invests or holds in short term or fixed income securities. As of December 31, 2008 there were $284,492 principal amount outstanding at interest rates between 2.5% and 3.0%. Interest expense associated with these repurchase agreements for the year ended 2008 was $8,835 of which $692 was accrued as of December 31, 2008. The Company has $293,444 of collateral pledged in support of these agreements.

During 2007, the Company entered into repurchase agreements. The agreements are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities, that it invests or hold in short term or fixed income securities. As of December 31, 2007 there were $146,403 principal amount outstanding at interest rates between 4.7% and 5.2%. Interest expense associated with these repurchase agreements for the year ended 2007 was $3,047 of which $994 was accrued as of December 31, 2007. The Company has $153,069 of collateral pledged in support of these agreements.

At December 31, 2008 and 2007, the Company through its domestic insurance subsidiary currently has assets with a fair value of $31,962 and $18,797, respectively on deposit with various state departments of insurance. These deposits are held for benefits of insurance company policyholders.

4. Fair Value of Financial Instruments

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in SFAS 157. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the SFAS 157 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 — Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 — Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 — Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use.

4. Fair Value of Financial Instruments – (continued)

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between unrelated parties. The estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in a forced transaction. Additionally, valuation of fixed maturity investments is more subjective when markets are less liquid due to lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in the Level 1 hierarchy. The Company receives the quoted market prices from a third party nationally recognized pricing services (‘‘pricing service’’). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value, which is mainly for its fixed maturities. The fair value estimates provided from this pricing service are included in the Level 2 hierarchy. The Company will challenge any prices for its investments which are considered to not represent fair value. If quoted market prices and an estimate from pricing services are unavailable, the Company produces an estimate of fair value based on dealer quotations for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, the Company will then determine if the estimate is Level 2 or Level 3 hierarchy. The Company bases its estimates of fair values for assets on the bid price as it represents what a third party market participant would be willing to pay in an arm’s length transaction.

Fixed Maturities (Held to Maturity and Available for Sale). The Company utilized a pricing service to estimate fair value measurements for approximately 99% of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted market prices in active markets. Since fixed maturities other than U.S. treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements using relevant market data, benchmark curves, sector groupings and matrix pricing. The pricing service utilized by the Company has indicated they will only produce an estimate of fair value if there is verifiable information to produce a valuation. As the fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes, the estimates of fair value other than U.S. Treasury securities are included in Level 2 of the hierarchy. U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted prices. The Company’s Level 2 investments include obligations of U.S. government agencies, municipal bonds, corporate debt securities and other mortgage backed securities. While a vast majority of the Company’s fixed maturities are included in Level 1 or Level 2, the Company holds a small percentage, approximately 1%, of investments which were not valued by a pricing service. Typically, the Company estimates the fair value of these fixed maturities using a pricing matrix with some unobservable inputs that are significant to the valuation. Due to the limited amount of unobservable market information, the Company includes the fair value estimates for these investments in Level 3. At December, 31, 2008 the Company held certain fixed maturity investments, which included corporate and bank debt, that were not suitable for matrix pricing. For these assets, a quote is obtained from a market maker broker. Due to the disclaimers on the quotes that indicate that the price is indicative only, the Company includes these fair value estimates in Level 3.

Equity Securities. For public common and preferred stocks, the Company receives estimates from a pricing service that are based on observable market transactions and includes these estimates in Level 1 hierarchy.

Other Investments. The Company has approximately 1.0% of its investment portfolio, in limited partnerships or hedge funds where the fair value estimate is determined by a fund a manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy. The Company has determined that its investments in Level 3 securities are not material to its financial position or results of operations.

4. Fair Value of Financial Instruments – (continued)

Derivatives. The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio. Derivatives, as defined in SFAS 133, are financial arrangements among two or more parties with returns linked to an underlying equity, debt, commodity, asset, liability, foreign exchange rate or other index. Unless subject to a scope exclusion, the Company carries all derivatives on the consolidated balance sheet at fair value. The changes in fair value of the derivative are presented as a component of operating income. The Company primarily utilizes the following types of derivatives:

- Credit default swap contracts (''CDS''), which, are valued in accordance with the terms of each contract based on the current interest rate spreads and credit risk of the referenced obligation of the underlying issuer and interest accrual through valuation date. Fair values are based on the price of the underlying bond on the valuation date. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract. Such amounts are limited to the total equity of the account;
- Interest rate swaps (''IS''), which are valued in terms of the contract between the Company and the issuer of the swaps, are based on the difference between the stated floating rate of the underlying indebtedness, in this case LIBOR, and a predetermined fixed rate for such indebtedness with the result that the indebtedness carries a net fixed interest rate; and
- Contracts for difference contracts (''CFD''), which, are valued based on the market price of the underlying stock. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract.

The Company estimates fair value using information provided by the portfolio manager for IS and CDS and the counterparty for CFD and classifies derivative as Level 3 hierarchy.

Notwithstanding the current economic conditions and the liquidity concerns in the credit markets, the Company determined that it should re-classify $7.9 million of is fixed securities from Level 2 to Level 3.

Fair Value Hierarchy

The following table presents the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of December 31, 2008:

	Total	Level 1	Level 2	Level 3
Assets:				
Held-to-maturity securities	$ 50,242	$ 2,282	$ 47,960	$ —
Available-for-sale fixed securities	910,376	15,712	886,769	7,895
Equity securities	28,828	28,828	—	—
Other investments	13,457	—	—	13,457
	$1,002,903	$46,822	$934,729	$21,352
Liabilities:				
Securities sold but not yet purchased, market	$ 22,608	$ 1,918	$ 20,690	$ —
Securities sold under agreements to repurchase, at contract value	284,492	—	284,492	—
Derivatives	1,439	—	—	1,439
	$ 1,439	$ 1,918	$305,182	$ 1,439

4. Fair Value of Financial Instruments – (continued)

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets as of December 31, 2008:

	Assets	Liabilities	Total
Beginning balance as of January 1, 2008	$28,035	$(4,101)	$23,934
Total net losses for the quarter included in:			
Net income	—	2,662	2,662
Other comprehensive loss	(6,262)	—	(6,262)
Purchases, sales, issuances and settlements, net	(8,316)	—	(8,316)
Net transfers into (out of) Level 3	7,895	—	7,895
Ending balance as of December 31, 2008	$21,352	$(1,439)	$19,913

The Company uses various financial instruments in the normal course of business. The carrying values of cash, short term investments and investment income accrued approximated their fair values.

The carrying values of fixed securities available for sale, equity securities, other investments and derivatives approximate fair value. The carrying value of fixed maturities held-to-maturity was 48,881 as of December 31, 2008. Debt is carried at cost which approximates fair value.

5. Acquisitions

In June 2008, the Company completed a stock and asset purchase agreement with a subsidiary of Unitrin, Inc. whereby the Company acquired Unitrin, Inc.'s commercial package business (''UBI'') including its distribution networks, renewal rights and four insurance companies through which Unitrin wrote its UBI business. The acquired insurance companies are located in Kansas, Texas and Wisconsin and are collectively licensed in 34 states. Consideration paid for the transaction was approximately $88,477 and consisted of cash of $61,146, a note payable of $26,845, assumed liabilities of $264 and direct transaction costs of $222. The Company recorded $35,076 of goodwill and $15,020 of intangible assets related to distribution networks and licenses. The distribution networks have a life of ten years and the licenses have an indefinite live. The note is required to be paid in full immediately, under certain circumstances, including default of a payment or change of control of the Company. The results of operations have been included in the Company's consolidated financial statements since the acquisition date. Additionally, at the close of the acquisition, the Company assumed approximately $82,000 of unearned premium from Unitrin affiliates in connection with the acquisition and then ceded the entire amount to Maiden Insurance pursuant to the Maiden Reinsurance Agreement (see Note 14. ''Related Party Transactions'').

5. Acquisitions – (continued)

In accordance with SFAS No. 141, the cost of the acquisition was allocated to the assets acquired and liabilities assumed based on the fair values as of the close of acquisition, with the amounts exceeding the fair value recorded as goodwill. The Company finalized its purchase price allocation during the fourth quarter of 2008. As a result of finalizing the allocation, the Company reduced the value of its intangibles recorded preliminary at the time of acquisition by approximately $26,000, which resulted in a positive adjustment to goodwill by the same amount. The finalized purchase price allocation as of the date of acquisition is as follows:

Assets	
Investments	$ 30,673
Cash and cash equivalents	5,263
Premium receivable	44,972
Prepaid reinsurance premium	62,829
Reinsurance recoverable	28
Property and equipment	1,120
Goodwill	35,076
Intangible assets	15,020
Other assets	2,478
Total assets	$197,459
Liabilities	
Reinsurance payable on paid losses	$ 45,708
Unearned premiums	62,910
Accrued expenses and other current liabilities	364
Total liabilities	$108,982
Total purchase price	$ 88,477

In September 2007, the Company acquired all the issued and outstanding stock of AIIS a Florida-based workers' compensation managing general agency, and its wholly-owned subsidiary, AIIC, a Florida workers' compensation insurer, also licensed in Alabama, Georgia and Mississippi for consideration of approximately $38,854. The $38,854 consisted of approximately $33,930 of cash, $599 of direct acquisition costs and $4,325 for a contingent liability related to income taxes (see Note 13. "Income Taxes"). Upon resolution of the contingency, the Company will distribute the $4,325 to either the IRS or the sellers of Associated or partially to both. The IRS recently held an appeals hearing and found in favor with the taxpayer related to the majority of the outstanding issues. Additionally, the Company recorded $3,720 of goodwill and $10,210 of intangible assets related to trademarks, licenses, distribution networks and non-compete agreements. The Company determined that the trademarks and licenses have indefinite lives and the remaining intangible assets are being amortized over a period of one to 15 years.

In April 2007, the Company, through a subsidiary, acquired all the issued and outstanding stock of IGI Group, Ltd. ("IGI"), a United Kingdom specialty issuer. The acquisition should enable the Company to expand its presence in the United Kingdom through IGI's distribution network and to leverage IGI's experienced administration and claims handling capabilities. The results of operations have been included since the acquisition date. The Company recorded a purchase price of approximately $15,200, which included cash of $14,900 and approximately $300 of direct acquisition costs. The allocation of the purchase price resulted in goodwill and intangible assets of approximately $3,500 and $7,400, respectively. The Company recorded intangibles primarily for trademarks and distribution networks. The trademark was determined to have an indefinite live and the remaining intangible asset lives were determined to have useful lives ranging between 5 and 20 years. The Company has not presented pro forma results of operations as this acquisition was not material to AmTrust's consolidated results of operations.

5. Acquisitions – (continued)

In February 2007, the Company participated with H.I.G. Capital, a Miami-based private equity firm, in financing H.I.G. Capital's acquisition of Warrantech in a cash merger. The Company contributed $3,850 for a 27% equity interest Warrantech. Warrantech is an independent developer, marketer and third party administrator of service contracts and after-market warranty primarily for the motor vehicle and consumer product industries. The Company currently provides insurance coverage for a majority of Warrantech's programs, which produced gross premium written of approximately $86,523 and $41,313 during the years ended 2008 and 2007, respectively. The Company recorded investment loss of approximately $991 and $749 from its equity investment for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008 the Company's equity interest was approximately $2,110. Additionally in 2007, the Company provided Warrantech with a $20,000 senior secured note due January 31, 2012 (note receivable — related party). Interest on the notes is payable monthly at a rate of 15% per annum and consisted of a cash component at 11% per annum and 4% per annum for the issuance of additional notes (''PIK Notes'') in a principle amount equal to the interest not paid in cash on such date. As of December 31, 2008 the carrying value of the note receivable was $21,591 (note receivable — related party).

In June 2006, the Company acquired 100% of the issued and outstanding capital stock of Wesco Insurance Company (''Wesco'' or ''WIC'') for $22,500, which included Wesco's statutory surplus of $15,000 and an additional $7,500. All pre-closing liabilities of Wesco are guaranteed by the seller. Wesco is a Delaware-domiciled property and casualty insurance company which is licensed in all 50 states. Wesco continues to write certain business for the seller, subject to contractual maximums as prescribed in the purchase agreement. This business is completely reinsured by an insurance subsidiary of the seller. Wesco receives a fronting fee under this arrangement. The purchase price in excess of net assets acquired of $7,500 was allocated to state insurance licenses acquired as a part of this transaction, which is reflected as intangible assets in the consolidated balance sheet with indefinite lives.

In June 2006, the Company acquired from Muirfield Underwriters, Ltd. (''Muirfield''), a subsidiary of Aon Corporation (''Aon''), the right to contract/conduct business with Muirfield's producer networks, the right to renew a discrete set of in-force policies and a covenant not to compete from Aon. The producer network consisted of approximately 275 independent agents and brokers in 11 states. The Company paid Muirfield $2,000 at closing and is obligated to pay a specified percentage of gross premiums written on new policies and renewal policies through the three year period ending May 31, 2009. This $2,000 purchase price is reflected as intangible assets consisting of $1,710 for distribution networks, $250 for renewal rights and $40 for covenants not to compete. The Company recorded approximately $1,200 of additional consideration as goodwill through December 31, 2008

6. Intangible Assets and Goodwill

The Composition of the intangible assets is summarized as follows:

As of December 31, 2008	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$ 49,794	—	$ 49,794	Indefinite Life
Renewal rights	1,880	998	882	7 years
Covenant not to compete	1,686	974	712	1 – 9 years
Distribution networks	34,417	4,967	29,450	10 – 20 years
Software	2,269	1,962	307	3 – 20 years
Customer relationships	4,712	1,526	3,186	5 – 10 years
Trademarks	3,347	—	3,347	Indefinite Life
Licenses	14,747	—	14,747	Indefinite Life
Total	$112,852	$10,427	$102,425	12.2 years average

As of December 31, 2007	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$10,549	—	$10,549	Indefinite Life
Renewal rights	1,880	743	1,137	7 years
Covenant not to compete	1,686	476	1,210	1 – 9 years
Distribution networks	25,403	3,047	22,356	14 – 20 years
Software	2,355	1,444	911	3 – 20 years
Customer relationships	5,900	611	5,289	5 – 10 years
Trademarks	3,560	—	3,560	Indefinite Life
Licenses	8,220	—	8,220	Indefinite Life
Total	$59,553	$6,321	$53,232	14.7 years average

Goodwill and intangible assets are subject to annual impairment testing. No impairment was recorded during the years ended December 31, 2008, 2007 and 2006. Finite lived intangible assets are amortized under the straight-line method, except for renewal rights, for which the Company amortizes them using a 125% accelerated method. Amortization expense for 2008, 2007 and 2006 was $4,106, $2,791 and $3,418, respectively. The estimated aggregate amortization expense for each of the next five years is:

2009	$3,798
2010	$3,612
2011	$3,550
2012	$3,491
2013	$3,117

7. Property and Equipment, Net

As of December 31,	2008	2007
Land	$ 881	$ 881
Building	6,664	6,149
Internal use software	6,730	3,932
Computer equipment	6,224	4,099
Other equipment	2,568	1,747
Leasehold improvements	890	1,053
	23,957	17,861
Less: Accumulated depreciation and amortization	(8,850)	(4,887)
	$15,107	$12,974

8. Accrued Expenses and Other Liabilities

As of December 31,	2008	2007
Premium taxes, assessments and surcharges payable	$ 62,265	$ 45,290
Commissions payable	30,658	14,870
Other accrued expenses	22,464	18,867
Accounts payable	12,413	16,885
Premiums collected in advance	4,663	6,711
Due to sellers	4,289	5,623
Accrued interest	4,550	3,156
Dividend payable	3,002	2,398
	$144,304	$113,800

9. Liability for Unpaid Loss and LAE

The following table provides a reconciliation of the beginning and ending balances for unpaid losses and LAE, reported in the accompanying consolidated balance sheets as of December 31, 2008 and 2007:

	2008	2007	2006
Unpaid losses and LAE, gross of related reinsurance recoverables at beginning of year	$ 775,392	$ 295,805	$ 168,007
Less: Reinsurance recoverables at beginning of year	258,028	44,127	17,667
Net balance, beginning of year	517,364	251,678	150,340
Incurred related to:			
Current year	238,847	274,897	209,626
Prior year	(544)	2,089	514
Total incurred losses during the year	238,303	276,986	210,140
Paid losses and LAE related to:			
Current year	(144,272)	(120,065)	(70,532)
Prior year	(112,893)	(59,990)	(38,270)
Total payments for losses and LAE	(257,165)	(180,055)	(108,802)
Commuted loss reserves	—	—	—
Net balance, December 31	498,502	348,609	251,678
Acquired outstanding loss and loss adjustment reserve	15,173	168,755	—
Effect of foreign exchange rates	(4,020)	—	—
Plus reinsurance recoverables at end of year	504,404	258,028	44,127
Unpaid losses and LAE, gross of related reinsurance recoverables at end of year	$1,014,059	$ 775,392	$ 295,805

In 2008, the Company's liabilities for unpaid losses and LAE attributable to prior years decreased by $544 as result of favorable development in both the small commercial business segment and specialty risk segment partially offset by unfavorable development in our specialty middle market segment as well as the Company's involuntary participation in NCCI pools. In 2007, the Company's liabilities for unpaid losses and LAE attributable to prior years increased by $2,089 as result of unfavorable loss development, in its small business worker's compensation segment due to its involuntary participation in NCCI pools. In setting its reserves, the Company utilizes a combination of Company loss development factors and industry-wide loss development factors. In the event that the Company's losses develop more favorably than the industry, as a whole, the Company's liabilities for unpaid losses and LAE should decrease. In 2006, the Company's liabilities for unpaid losses and LAE attributable to prior years increased by $514 as result of unfavorable loss

9. Liability for Unpaid Loss and LAE – (continued)

development. Management believes that its use of both its historical experience and industry-wide loss development factors provide a reasonable basis for estimating future losses. As the Company has written more business and develop more credible data, the Company has assigned more weight to its historical experience than to industry-wide results. In either case, future events beyond the control of management, such as changes in law, judicial interpretations of law, and inflation may favorably or unfavorably impact the ultimate settlement of the Company's loss and LAE.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated changes in claim costs due to inflation are considered in estimating the ultimate claim costs, the increase in average severity of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and are modified if necessary.

10. Reinsurance

The Company utilizes reinsurance agreements to reduce its exposure to large claims and catastrophic loss occurrences. These agreements provide for recovery from reinsurers of a portion of losses and LAE under certain circumstances without relieving the insurer of its obligation to the policyholder. Losses and LAE incurred and premiums earned are reflected after deduction for reinsurance. In the event reinsurers are unable to meet their obligations under reinsurance agreements, the Company would not be able to realize the full value of the reinsurance recoverable balances. The Company periodically evaluates the financial condition of its reinsurers in order to minimize its exposure to significant losses from reinsurer insolvencies. Reinsurance does not discharge or diminish the primary liability of the Company; however, it does permit recovery of losses on such risks from the reinsurers.

The Company has coverage for its workers' compensation line of business under excess of loss reinsurance agreements. The agreements cover losses in excess of $500 through December 31, 2004, $600 effective January 1, 2005 and $1,000 effective July 1, 2006, per occurrence up to a maximum $130,000 ($80,000 prior to 2004) in losses per occurrence. Our reinsurance for worker's compensation losses caused by acts of terrorism is more limited than our reinsurance for other types of workers' compensation losses. Beginning with policies effective January 1, 2006, the Company retains the first $1,000 per occurrence. We have obtained reinsurance for this line of business with higher limits as our exposures have increased. As the scale of our workers' compensation business has increased, we have also increased the amount of risk we retain.

The Company has coverage for its casualty lines of business under excess of loss reinsurance agreements. The agreement covers losses in excess of $2,000 per occurrence up to a maximum $12,000. The agreement also provides ''clash'' protection for qualifying claims for losses in excess of $12,000 up to a maximum of $32,000.

The Company has coverage for its property lines of business under an excess of loss reinsurance agreements. The agreement covers losses in excess of $2,000 per property up to a maximum $15,000. In addition the Company has a property catastrophe excess of loss agreement. The agreement covers losses in excess of $4,000 per occurrence up to a maximum $65,000.

During 2008, TIC acted as servicing carrier on behalf of the Arkansas, Illinois, Indiana, Georgia and Virginia Workers' Compensation Assigned Risk Plans. In 2007, TIC acted as servicing carrier on behalf of both the Georgia and Virginia Workers' Compensation Assigned Risk Plans. In 2006, TIC was only a servicing carrier for the Georgia Assigned Risk Plan. In its role as a serving carrier TIC issues and services certain workers compensation policies to Georgia and Virginia insureds. Those policies are subject to a 100% quota-share reinsurance agreement offered by the National Workers Compensation Reinsurance Pool a state-based

10. Reinsurance – (continued)

equivalent, which is administered by the National Council on Compensation Insurance, Inc. (''NCCI''). Technology wrote approximately $45,300, $26,700 and $10,600 of premium in 2008, 2007 and 2006, respectively, as a servicing carrier.

As part of the agreement to purchase Wesco from Household Insurance Group Holding Company (''Household''), the Company agreed to write certain business on behalf Household for a three year period. The premium written under this arrangement is 100% reinsured by HSBC Insurance Company of Delaware, a subsidiary of Household. The reinsurance recoverable associated with this business is guaranteed by Household. Wesco wrote approximately $25,200, $32,600 and $26,200 million of premium in 2008, 2007 and 2006, respectively, subject to this reinsurance treaty.

During the third quarter of 2007, the Company and Maiden entered into master agreement, as amended, by which they caused the Company's Bermuda affiliate, AII and Maiden Insurance to enter into a quota share reinsurance agreement (the ''Reinsurance Agreement'') by which (a) AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by AmTrust's U.S., Irish and U.K. insurance companies (the ''AmTrust Ceding Insurers''), net of the cost of unaffiliated insuring reinsurance (and in the case of AmTrust's U.K. insurance subsidiary IGI, net of commissions) and 40% of losses and (b) AII transferred to Maiden Insurance 40% of the AmTrust Ceding Insurer's unearned premium reserves, effective as of July 1, 2007, with respect to current lines of business, excluding risks for which the AmTrust Ceding Insurers' net retention exceeds $2,000 (''Covered Business''). AmTrust also has agreed to cause AII, subject to regulatory requirements, to reinsure any insurance company which writes Covered Business in which AmTrust acquires a majority interest to the extent required to enable AII to cede to Maiden Insurance 40% of the premiums and losses related to such Covered Business. The Agreement further provides that the AII receives a ceding commission of 31% of ceded written premiums. The Reinsurance Agreement has an initial term of three years and will automatically renew for successive three year terms thereafter, unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three year term. In addition, either party is entitled to terminate on thirty day's notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Insurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers. Effective June 1, 2008 the master agreement was amended such that AII agreed to cede and Maiden Insurance agreed to accept and reinsure Retail Commercial Package Business, which the Company, through Affiliates, commenced writing effective June 1, 2008, in connection with its acquisition of UBI. AII ceded 100% of the unearned premium related to in-force Retail Commercial Package Business and losses related thereto at the acquisition date and 40% the Company's net written premium and losses on Retail Commercial Package Business written or renewed on or after the effective date. The $2,000 maximum liability for a single loss provided in the Quota Share Reinsurance Agreement shall not be applicable to Retail Commercial Package Business. AmTrust receives a ceding commission of 34.375% for Retail Commercial Package Business.

As part of the acquisition of Associated, the Company acquired reinsurance recoverable as of the date of closing. The most significant reinsurance recoverable is from American Home Assurance Co. (''American Home''). AIIC's reinsurance relationship with American Home incepted January 1, 1998 on a loss occurring basis. From January 1, 1998 through March 31, 1999 the American Home reinsurance covered losses in excess of $250 per occurrence up to statutory coverage limits. Effective April 1, 1999, American Home provided coverage in the amount of $150 in excess of $100. This additional coverage terminated on December 31, 2001 on a run-off basis. Therefore, for losses occurring in 2002 that attached to a 2001 policy, the retention was $100 per occurrence. Effective January 1, 2002 American Home increased its attachment was $250 per occurrence. The XOL treaty that had an attachment of $250 was terminated on a run-off basis on December 31, 2002. Therefore, losses occurring in 2003 that attached to a 2002 policy were ceded to American Home at an attachment point of $250 per occurrence.

10. Reinsurance – (continued)

In October 2006, the Company entered into a quota-share reinsurance agreement with 5 syndicate members of Lloyd's of London who collectively reinsured 70%, 73% and 10% in 2006, 2007 and 2008, respectively, of a particular specialty risk and extended warranty program.

Since January 1, 2003, the Company has had variable quota share reinsurance with Munich Reinsurance Company (''Munich Re'') for our specialty risk and extended warranty insurance. The scope of this reinsurance arrangement is broad enough to cover all of our specialty risk and extended warranty insurance worldwide. However, we do not cede to Munich Re the majority of our U.S. specialty risks and extended warranty business, although we may cede more of this U.S. business to Munich Re in the future.

Under the variable quota share reinsurance arrangements with Munich Re, we may elect to cede from 15% to 50% of each covered risk, but Munich Re shall not reinsure more than £500 for each ceded risk which we at acceptance regard as one individual risk. This means that regardless of the amount of insured losses generated by any ceded risk, the maximum coverage for that ceded risk under this reinsurance arrangement is £500,000. For the majority of the business ceded under this reinsurance arrangement, we cede 15% of the risk to Munich Re, but for some newer or larger risks, we cede a larger share to Munich Re. This reinsurance is subject to a limit of £2.5 million per occurrence of certain natural perils such as windstorms, earthquakes, floods and storm surge. Coverage for losses arising out of acts of terrorism is excluded from the scope of this reinsurance.

Included in the Company's loss reserves as of December 31, 2008, 2007 and 2006 is approximately $3,329, $3,847 and $3,154, respectively, relating to assumed lines of business (written primarily by RIC prior to its acquisition by the Company) that are in a run-off position. The Company continuously updates the reserves on these lines of business based on information available from the ceding insurers. During 2008, 2007 and 2006, the Company did not commute any reinsurance contracts.

The effect of reinsurance with unrelated companies on premiums and losses for 2008, 2007 and 2006 are as follows:

	Year Ended December 31,					
	2008		2007		2006	
	Written	Earned	Written	Earned	Written	Earned
Premiums:						
Direct	$1,061,100	$ 875,752	$ 807,055	$ 658,158	$506,492	$370,035
Assumed	49,474	48,156	32,336	30,365	19,582	17,990
Ceded	(555,661)	(484,811)	(419,510)	(244,287)	(89,760)	(59,013)
	$ 554,913	$ 439,097	$ 419,881	$ 444,236	$436,314	$329,012

	As of December 31,					
	2008		2007		2006	
	Assumed	Ceded	Assumed	Ceded	Assumed	Ceded
Loss and LAE reserves	$57,827	$(514,759)	$33,290	$(258,028)	$27,326	$(44,127)
Unearned premiums	20,333	(372,030)	17,993	(244,683)	12,823	(72,439)
Loss and LAE expense incurred	42,468	(346,958)	18,269	(118,772)	13,099	(39,832)

11. Debt

Junior Subordinated Debt

The Company established four special purpose trusts for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in junior subordinated debentures issued by the Company. As a result of FIN 46, the Company does not consolidate such special purpose trusts, as the Company is not considered to be the primary beneficiary under this accounting standard. The equity investment, totaling $3,714 as of December 31, 2008 on the Company's consolidated balance sheet, represents the Company's ownership of common securities issued by the trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The Company incurred $2,605 of placement fees in connection with these issuances which is being amortized over thirty years.

The table below summarizes the Company's trust preferred securities as of December 31, 2008:

Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate of Notes
AmTrust Capital Financing Trust I	$ 25,000	$ 774	$ 25,774	3/17/2035	8.275%(1)
AmTrust Capital Financing Trust II	25,000	774	25,774	6/15/2035	7.710%(1)
AmTrust Capital Financing Trust III	30,000	928	30,928	9/15/2036	8.830%(2)
AmTrust Capital Financing Trust IV	40,000	1,238	41,238	3/15/2037	7.930%(3)
Total trust preferred securities	$120,000	$3,714	$123,714		

(1) The interest rate will change to three-month LIBOR plus 3.40% after the tenth anniversary.

(2) The interest rate will change to LIBOR plus 3.30% after the fifth anniversary.

(3) The interest rate will change to LIBOR plus 3.00% after the fifth anniversary.

Term Loan

On June 3, 2008, the Company entered into a term loan with JP Morgan Chase Bank, N.A. in the aggregate amount of $40,000. The term of loan is for a period of three years and requires quarterly principal payments of $3,333 beginning on September 3, 2008 and ending on June 3, 2011. The loan carries a variable rate and is based on a Eurodollar rate plus an applicable margin. The Eurodollar rate is a periodic fixed rate equal to the London Interbank Offered Rate ''LIBOR'' plus a margin rate, which was 185 basis points. As of December 31, 2008 the interest rate was 4.07%. The Company recorded $1,142 of interest expense during 2008. The Company can prepay any amount after the first anniversary date without penalty upon prior notice. The term loan contains affirmative and negative covenants, including limitations on additional debt, limitations on investments and acquisitions outside the Company's normal course of business. The loan requires the Company to maintain a debt to capital ratio of 0.35 to 1 or less. The Company incurred financing fees of $52 related to the agreement.

On June 4, 2008, the Company entered into a fixed rate interest swap agreement totaling $40,000 to convert the term loan from variable to fixed rate. Under this agreement, the Company will pay a variable rate of and receive a fixed rate based on LIBOR plus a margin of 267 basis points. The variable rate is reset every three months, at which time the interest will be settled and will be recognized as adjustments to interest expense. The Company recorded interest income of $462 during 2008 related to this agreement.

11. Debt – (continued)

Promissory Note

In connection with the stock and asset purchase agreement with a subsidiary of Unitrin, Inc. (See Note 5. ''Acquisitions''), the Company issued a promissory note to Unitrin in the amount of $30,000. The note is non interest bearing and requires four annual principal payments of $7,500 beginning on June 1, 2009 through June 1, 2012. The Company calculated imputed interest of $3,155 based on interest rates available to the Company at the date of acquisition which was 4.5%. Accordingly, the note's carrying balance was adjusted to $26,845 at the acquisition. The note is required to be paid in full, immediately, under certain circumstances involving default of payment or change of control of the Company. The Company included $716 of amortized discount on the note in its results of operations for the year ended December 31, 2008, respectively. The note's carrying value at December 31, 2008 was $27,561.

Line of Credit

On June 3, 2008, the Company entered into an agreement for an unsecured line of credit with JP Morgan Chase Bank, N.A. in the aggregate amount of $25,000. The line will be used for collateral for letters of credit. The line will expire on June 30, 2009. Interest payments are required to be paid monthly on any unpaid principal and bears interest at a rate of LIBOR plus 150 basis points. As of December 31, 2008 there was no outstanding balance on the line of credit. The Company has an outstanding letters of credit in place at December 31, 2008 for $21,221 that reduced the availability on the line of credit to $3,779 as of December 31, 2008. The Company incurred financing fees of $25 related to the agreement.

Maturities of Debt

Maturities of the Company's debt for the five years subsequent to December 31, 2008 are as follows:

	2009	2010	2011	2012	2013	Thereafter
Junior subordinated debt	$ —	$ —	$ —	$ —	$—	$123,714
Term loan	13,333	13,333	6,667	—	—	—
Promissory note	6,433	6,729	7,037	7,362	—	—
Total	$19,766	$20,062	$13,704	$7,362	$—	$123,714

12. Share Based Compensation

The Company's 2005 Equity and Incentive Plan (''2005 Plan'') permits the Company to grant to officers, employees and non-employee directors of the Company, incentive directly linked to the price of the Company's stock. The Company grants options at prices equal to the closing stock price of the Company's stock on the dates the options were granted. The options have a term of ten years from the date of grant and vest primarily in equal annual installments over the four-year period following the date of grant for employee options. Employees have three months after the employment relationship ends to exercise all vested options. The aggregate number of shares of Common Stock for which awards may be issued may not exceed 5,994,300 shares, and the aggregate number of shares of Common Stock for which restricted stock awards may be issued may not exceed 1,998,100 shares, subject to the authority of our Board of Directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting our Common Stock. As of December 31, 2008, 4,263,900 shares of Company common stock remained available for grants under the Plan.

Effective January 1, 2006, the Company adopted SFAS No. 123(R) ''Share-Based Payment'' and began recognizing compensation expense for its share-based payments based on the fair value of the awards. Share-based payments include restricted stock and stock option grants under the Company's 2005 Equity Incentive Plan. SFAS 123(R) requires share-based compensation expense recognized since January 1, 2006, to be based on the following: a) grant date fair value estimated in accordance with the original provisions of SFAS 123

12. Share Based Compensation – (continued)

for unvested options granted prior to the adoption date; and b) grant date fair value estimated in accordance with the provisions of SFAS 123(R) for unvested options granted subsequent to the adoption date. Under SFAS 123(R) forfeitures are estimated at the time of calculation and reduce expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate. The Company did not issue share based compensation prior to the adoption of SFAS No. 123(R). There was no impact on cash provided by operating and/or financing activities related to increased tax benefits from stock based payment arrangements.

The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. The adoption of SFAS 123(R)'s fair value method has resulted in additional share-based expense (a component of salaries and benefits) in the amount of approximately $3,136, $1,830 and $1,025 related to stock options for the years ended 2008, 2007 and 2006, respectively.

The fair value was estimated at the date of grant with the following weighted average assumptions for the years ended December 31, 2007 and 2006:

	2008	2007	2006
Volatility	28.84%	33.67%	27.76%
Risk-free interest rate	1.80%	4.79%	4.36%
Weighted average expected lives in years	6.25	6.25	6.25
Dividend rate	1.00%	1.00%	1.00%
Forfeiture rate	3.00%	3.00%	3.00%

A summary of the Company's stock option activity for the years ended December 31, 2008, 2007 and 2006 is shown below:

	2008		2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,126,250	$ 8.91	2,389,750	7.25	—	$ —
Granted	732,500	13.96	797,500	$13.78	2,389,750	7.25
Forfeited	(31,500)	7.88	(61,000)	7.50	—	—
Exercised	(98,750)	7.50	—	—	—	—
Outstanding at end of year	3,728,500	$ 9.88	3,126,250	$ 8.91	2,389,750	$7.25

The weighted average grant date fair value of options granted was $4.46, $5.41 and $2.75 during 2008, 2007 and 2006, respectively. The Company had approximately $6,900, $7,200 and $5,200 of unrecognized compensation cost related to unvested stock options as of December 31, 2008, 2007 and 2006, respectively. All option grants outstanding had an approximate weighted average remaining life of 8.6 years. As of December 31, 2008, there were approximately 1,600,000 shares with a weighted average exercise price of $13.97 that were exercisable.

13. Income Taxes

The provision for income taxes consists of the following the years ended December 31, 2008, 2007 and 2006:

Income tax provision (benefit)	2008	2007	2006
Current	$18,094	$34,816	$22,160
Deferred	2,473	1,893	(4,381)
	$20,567	$36,709	$17,779

The effective income tax rate differs from the statutory income tax rate as follows for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
Income before income taxes	$103,495	$126,849	$66,635
Tax at federal statutory rate of 35%	$ 36,223	$ 44,397	$23,322
Tax effects resulting from:			
Net income of non-includible foreign subsidiaries	(13,502)	(8,716)	(4,243)
Foreign currency gain	(864)	(45)	(151)
Other, net	(1,290)	1,073	(1,149)
	$ 20,567	$ 36,709	$17,779

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2008 and 2007 are shown below.

	2008	2007
Deferred tax assets:		
Ceding commission	$ 14,481	$ 6,146
Losses and LAE reserves	22,276	22,717
Unearned premiums	27,261	19,748
Unrealized depreciation of investments	56,977	17,071
Bad debt	2,689	2,758
Deferred compensation	3,070	2,900
Other	5,570	1,624
	132,324	72,964
Deferred tax liabilities:		
Earned but unbilled premiums	—	(4,516)
Deferred acquisition costs	(50,868)	(31,077)
Other, net	(4,546)	(869)
	(55,414)	(36,462)
Deferred tax asset, net	$ 76,910	$ 36,502

The Company's management believes that it will realize the benefits of its deferred tax asset and, accordingly, no valuation allowance has been recorded for the periods presented. The Company does not provide for income taxes on the unremitted earnings of foreign subsidiaries where, in management's opinion, such earnings have been indefinitely reinvested. It is not practical to determine the amount of unrecognized deferred tax liabilities for temporary differences related to these investments.

The Company's major taxing jurisdictions include the U.S. (federal and state), the United Kingdom and Ireland. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the Company's

13. Income Taxes – (continued)

statute of limitation is open for tax years ended December 31, 2004 and forward. At December 31, 2008, the Company has approximately $1,500 of accrued interest and penalties related to FIN 48 unrecognized tax benefits.

During 2006, the Internal Revenue Service (''IRS'') completed an audit of the Company's subsidiaries, Associated Industries Insurance Services, Inc. (''AIIS'') and Associated Industries Insurance Company's (''AIIC'') (collectively ''Associated'') which the Company acquired in 2007. For the IRS' 2002 and 2003 consolidated federal income tax returns, the field examiner indicated Associated underpaid their liability by approximately $3,200. In addition, interest and penalties of $600 were assessed. During 2006, management of Associated accrued a liability for its best estimate of a settlement with the IRS. Although Associated's management disagrees with the majority of the positions taken by the examiner and has appealed the assessment, the Company has estimated the potential liability related to the audit to be $4,325 (including $1,395 for penalties and interest) and has reflected this position, per FIN 48 guidelines, in the consolidated financial statements. In October 2008, the appeals agent found in favor of the Companies on substantially all issues and also agreed to abate all related penalties. The preliminary report and recommendation of settlement has been prepared by the appeals agent and forwarded to the IRS settlement computation specialist in Chicago. The Company expects the IRS to issue their final settlement report and proposed adjustment of tax and interest due during the second quarter of 2009.

During the second quarter of 2008, AIIS received formal notification from the IRS indicating the 2006 consolidated federal income tax return has been selected for audit. The initial audit meeting has been held and related correspondence with the field examiner exchanged. Subsequently, the majority of the field work has been completed and responses for all initial information document requests have been provided to the examining agent. The Company expects the agent to issue any proposed adjustments and related audit report during the second quarter of 2009.

During 2007, the Company, while performing a review of the most recently filed income tax return with the IRS for calendar year ending December 31, 2006, determined an issue exists per FIN 48 guidelines concerning its position related to accrued market discount. The Company reverses accrued market discount income recognized for book purposes when calculating taxable income. The reversal results from the accrued market discount income recognized by the insurance subsidiaries for bonds and other investments. The Company inadvertently reversed the amount related to commercial paper investments on the 2006 income tax return. The Company has estimated the potential liability to be approximately $915 (including $100 for penalties and interest) and has reflected this position, per FIN 48 guidelines, in the consolidated financial statements.

As permitted by FIN 48, the Company also adopted an accounting policy to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. Previously, the Company's policy was to classify interest and penalties as an operating expense in arriving at pre-tax income. At December 31, 2008, the Company has $1,493 of accrued interest and penalties related to FIN 48 unrecognized tax benefits.

13. Income Taxes – (continued)

A reconciliation of the total amounts of gross unrecognized tax benefits is as follows:

	2008	2007
Gross unrecognized tax benefit as of January 1	$5,188	$ —
Decreases in tax positions for prior years	52	863
Increases in tax positions for prior years	—	—
Decreases in tax positions for current year	—	4,325
Increases in tax positions for current year	—	—
Lapse in statute of limitations	—	—
Settlements	—	—
Gross unrecognized tax benefits as of December 31	$5,240	$5,188

Listed below are the tax years that remain subject to examination by major tax jurisdictions:

	Open Tax Years
Major tax jurisdictions:	
United States	2005-2007
United Kingdom	2005-2007
Ireland	2004-2007

14. Related Party Transactions

Reinsurance Agreement

Maiden Holdings, Inc. (“Maiden”) is a Bermuda insurance holding company formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, the principal shareholders, and, respectively, the Chairman of the Board of Directors, a Director, and the Chief Executive Officer and Director of the Company. Messrs. Karfunkel and Mr. Zyskind contributed $50,000 to Maiden Insurance. In July 2007, Maiden raised approximately $480,600 in a private placement. Maiden Insurance Company, Ltd. (“Maiden Insurance”), a wholly-owned subsidiary of Maiden, is a class 3 Bermuda insurance company.

During the third quarter of 2007, the Company and Maiden entered into master agreement, as amended, by which they caused the Company’s Bermuda affiliate, AmTrust International Insurance, Ltd. (“AII”) and Maiden Insurance to enter into a quota share reinsurance agreement (the “Reinsurance Agreement”) by which (a) AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by AmTrust’s U.S., Irish and U.K. insurance companies (the “AmTrust Ceding Insurers”), net of the cost of unaffiliated inuring reinsurance (and in the case of AmTrust’s U.K. insurance subsidiary IGI, net of commissions) and 40% of losses and (b) AII transferred to Maiden Insurance 40% of the AmTrust Ceding Insurer’s unearned premium reserves, effective as of July 1, 2007, with respect to current lines of business, excluding risks for which the AmTrust Ceding Insurers’ net retention exceeds $5,000 (“Covered Business”). AmTrust also has agreed to cause AII, subject to regulatory requirements, to reinsure any insurance company which writes Covered Business in which AmTrust acquires a majority interest to the extent required to enable AII to cede to Maiden Insurance 40% of the premiums and losses related to such Covered Business. The Agreement further provides that AII receives a ceding commission of 31% of ceded written premiums. The Reinsurance Agreement has an initial term of three years and will automatically renew for successive three year terms thereafter, unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three year term. In addition, either party is entitled to terminate on thirty day’s notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders’ equity of Maiden Insurance or the combined shareholders’ equity of AII and the AmTrust Ceding Insurers.

14. Related Party Transactions – (continued)

Effective June 1, 2008 the master agreement was amended such that AII agreed to cede and Maiden Insurance agreed to accept and reinsure Retail Commercial Package Business, which the Company, through Affiliates, commenced writing effective June 1, 2008, in connection with its acquisition of UBI. AII ceded 100% of the unearned premium related to in-force Retail Commercial Package Business and losses related thereto at the acquisition date and 40% the Company's net written premium and losses on Retail Commercial Package Business written or renewed on or after the effective date. The $2,000 maximum liability for a single loss provided in the Quota Share Reinsurance Agreement shall not be applicable to Retail Commercial Package Business. AmTrust receives a ceding commission of 34.375% for Retail Commercial Package Business. The Company recorded approximately $114,437 and $59,077 of ceding commission income during the years ended December 31, 2008 and 2007, respectively, as a result of this agreement.

The following is the effect on the Company's balance sheet as of December 31, 2008 and 2007 and the results of operations for the years ended December 31, 2008 and 2007 related to the Reinsurance Agreement:

	As of December 31,	
	2008	2007
Assets and liabilities:		
Reinsurance recoverable	$ 221,214	$ 55,973
Prepaid reinsurance premium	243,511	137,099
Ceded reinsurance premiums payable	(102,907)	(38,792)
Note payable	(167,975)	(113,228)

	Year Ended December 31,	
	2008	2007
Results of operations:		
Premium written – ceded [1]	$(444,981)	$(247,647)
Change in unearned premium – ceded	106,411	137,099
Earned premium – ceded	$(338,570)	$(110,548)
Ceding commission on premium written	$ 141,168	$ 76,648
Ceding commission – deferred	(26,451)	(17,571)
Ceding commission – earned	$ 114,717	$ 59,077
Incurred loss and loss adjustment expense – ceded	$ 232,290	$ 40,898
Interest expense on collateral loan	6,541	—

(1) 2008 includes $59,779 of ceded written premium ($47,686 of earned premium) related the unearned premium transfer that was acquired as part of the Company's acquisition of UBI and subsequently reinsured 100% to Maiden.

The Reinsurance Agreement requires that Maiden Insurance provide to AII sufficient collateral to secure its proportional share of AII's obligations to the U.S. AmTrust Ceding Insurers. AII is required to return to Maiden Insurance any assets of Maiden Insurance in excess of the amount required to secure its proportional share of AII's collateral requirements, subject to certain deductions. In order to secure its proportional share of AII's obligation to the AmTrust Ceding Insurers, domiciled in the U.S., AII currently holds a collateral loan with Maiden Insurance in the amount of $167,975. Additionally Maiden has placed, approximately, $75,400 into a segregated reinsurance trust account. The Company does retain ownership of $75,400 in the trust account.

14. Related Party Transactions – (continued)

Reinsurance Brokerage Agreement

Effective July 1, 2007, AmTrust, through a subsidiary, entered into a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, AmTrust provides brokerage services relating to the Reinsurance Agreement for a fee equal to 1.25% of reinsured premium. The brokerage fee is payable in consideration of AII Reinsurance Broker Ltd.'s brokerage services. The Company recorded $5,492 and $3,092 of brokerage commission during the years ended December 31, 2008 and 2007, respectively.

Asset Management Agreement

Effective July 1, 2007, AmTrust, through a subsidiary, entered into an asset management agreement with Maiden, pursuant to which it provides investment management services to Maiden. Pursuant to the asset management agreement, AmTrust earns an annual fee equal to 0.35% per annum of average invested assets plus all costs incurred. Effective April 1, 2008, the investment management services fee has been reduced to 0.20% per annum and is further reduced to 0.15% per annum if the average invested assets exceed $1,000,000. As a result of this agreement, the Company recorded approximately $1,364 and $882 of investment management fees for the years ended December 31, 2008 and 2007, respectfully.

Services Agreement

AmTrust, through its subsidiaries, entered into services agreements in 2008, pursuant to which it provides certain marketing and back office services to Maiden. Pursuant to the services agreements, AmTrust earns a fee equal to reimburse AmTrust for its costs plus 8%. The Company recorded approximately $1,152 for the year ended 2008 as a result of this agreement.

Note Payable — Collateral for Proportionate Share of Reinsurance Obligation

In conjunction with the Reinsurance Agreement, AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby, Maiden Insurance will lend to AII from time to time for the amount of obligation of the AmTrust Ceding Insurers that AII is obligated to secure, not to exceed an amount equal to Maiden Insurance's proportionate share of such obligations to such AmTrust Ceding Insurers in accordance with the reinsurance agreement. The Company is required to deposit all proceeds from the advances into a sub-account of each trust account that has been established for each AmTrust Ceding Insurer. To the extent of the loan, Maiden Insurance shall be discharged from providing security for its proportionate share of the obligations as contemplated by the reinsurance agreement. If an AmTrust Ceding Insurer withdraws loan proceeds from the trust account for the purpose of reimbursing such AmTrust Ceding Insurer, for an ultimate net loss, the outstanding principal balance of the loan shall be reduced by the amount of such withdrawal. The loan agreement was amended in February 2008 to provide for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Each advance under the loan is secured by a promissory note. Advances totaled $167,975 as of December 31, 2008. The Company recorded $6,541 of interest expense during 2008.

Other Reinsurance Agreement

Effective January 1, 2008, Maiden became a participating reinsurer in the first layer of the Company's workers' compensation excess of loss program, which provides coverage in the amount of $9 million per occurrence in excess of $1 million, subject to an annual aggregate deductible of $1.25 million. Maiden, which is one of two participating reinsurers in the layer, has a 45% participation. Maiden participates in the first layer of the excess of loss program on the same market terms and conditions as the other participant.

Leap Tide Capital Management

Leap Tide Capital Management, Inc. ("LTCMI"), our wholly owned subsidiary, currently manages approximately $27,000 of our assets. LTCMI also serves as the Investment Manager of Leap Tide Partners,

14. Related Party Transactions – (continued)

L.P., a domestic partnership, (see Note 24 "Assets under Management") and Leap Tide Offshore, Ltd., a Cayman exempted company, both of which were formed for the purpose of providing qualified third-party investors the opportunity to invest funds in a vehicle managed by ACMI (the "Hedge Funds"). As of December 31, 2008, the current value of the invested funds was approximately $2,500 in the Hedge Funds. Approximately 88% of these funds were contributed by Michael Karfunkel, George Karfunkel and Barry D. Zyskind. The Company's Audit Committee has reviewed the Leap Tide transactions and determined that they were entered into at arm's-length and didn't violate the Company's Code of Business Conduct and Ethics. The management companies earned approximately $603, $1,073 and $26 of fees under the agreement during the years ended December 31, 2008, 2007 and 2006, respectively.

Warrantech

In February of 2007, the Company participated with H.I.G. Capital, a Miami-based private equity firm, in financing H.I.G. Capital's acquisition of Warrantech (see Note 5 "Acquisitions") in a cash merger. The Company contributed $3,850 for a 27% equity interest Warrantech. Warrantech is an independent developer, marketer and third party administrator of service contracts and after-market warranty primarily for the motor vehicle and consumer product industries. The Company currently insures a majority of Warrantech's business, which produced gross premium written of approximately $86,523 and $41,313 during the years ended 2008 and 2007, respectively. The Company recorded investment loss of approximately $991 and $749 from its equity investment for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008 the Company's equity interest was approximately $2,110. Additionally in 2007, the Company provided Warrantech with a $20,000 senior secured note due January 31, 2012 (note receivable — related party). Interest on the notes is payable monthly at a rate of 15% per annum and consisted of a cash component at 11% per annum and 4% per annum for the issuance of additional notes ("PIK Notes") in a principle amount equal to the interest not paid in cash on such date. As of December 31, 2008 the carrying value of the note receivable was $21,591 (note receivable — related party).

Lease Agreements

In June 2002, the Company entered into a lease for approximately 9,000 square feet of office space at 59 Maiden Lane in downtown Manhattan from 59 Maiden Lane Associates, LLC, an entity which is wholly owned by Michael Karfunkel and George Karfunkel. Effective January 1, 2008, the Company entered into an amended lease whereby it increased its leased space to 14,807 square feet and extended the lease through December 31, 2017. The Audit Committee reviewed and approved the amended lease agreement. The Company paid approximately $537, $348 and $308 for the years ended 2008, 2007 and 2006, respectively.

In 2008, the Company entered into a lease for approximately 5,000 square feet of office space in Chicago, Illinois from 33 West Monroe Associates, LLC, an entity which is wholly owned by Michael Karfunkel and George Karfunkel. The audit committee reviewed and approved the lease agreement. The Company paid approximately $123 for the year ended 2008.

Principal Shareholders Consolidation

AmTrust Financial Group, Inc. ("AFG") was the principal shareholder of the Company, owning approximately 24,089,286 shares of common stock of the Company (the "Common Stock"). Messrs. Michael Karfunkel, George Karfunkel and Barry Zyskind directly or indirectly held approximately 37.5%, 37.5% and 25.0%, respectively, of AFG. To simplify the stock ownership of the Company, two mergers were consummated, in 2007, whereby AFG and G/MK Acquisition Corp. were merged with and into a wholly owned subsidiary of the Company. AFG and G/MK Acquisition Corp. were primarily shell holding companies with no other assets, except for common stock. As a result, the Company issued and delivered 24,088,000 shares of Common Stock in exchange for 24,089,286 shares of Common Stock held by AFG, which shares were then issued in proportion to their respective AFG holdings: Michael Karfunkel received 9,033,000 shares, George

14. Related Party Transactions – (continued)

Karfunkel received 9,033,000 shares, Barry Zyskind received 6,022,000, and the remaining 1,286 shares were returned to the treasury of the Company. The mergers had no impact on the Company's financial position, results of operations or cash flows for the year ended 2007.

Employment Relationship

Barry Karfunkel, an analyst with a Company subsidiary, earned approximately $280, $250 and $225 for the years ended December 31, 2008, 2007 and 2006, respectively. Barry Karfunkel is the son of Michael Karfunkel and the brother-in-law of Barry Zyskind.

15. Earnings Per Share

The following, is a summary of the elements used in calculating basic and diluted earnings per share for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
Income from continuing operations	$82,928	$90,140	$48,425
Income from discontinued operations	—	—	431
Net income	$82,928	$90,140	$48,856
Weighted average number of common shares outstanding – basic	59,991	59,958	56,315
Potentially dilutive shares:			
Dilutive shares from stock – based compensation	680	716	—
Weighted average number of common shares outstanding – dilutive	60,671	60,674	56,315
Income from continuing operations – basic earnings per share	$ 1.38	$ 1.50	$ 0.86
Income from discontinued operations – basic earnings per share	—	—	0.01
Net income – basic earnings per share	$ 1.38	$ 1.50	$ 0.87
Income from continuing operations – diluted earnings per share	$ 1.37	$ 1.49	$ 0.86
Income from discontinued operations – diluted earnings per share	—	—	0.01
Net income – diluted earnings per share	$ 1.37	$ 1.49	$ 0.87

16. Commitments and Contingencies

Litigation

The Company's insurance subsidiaries are named as defendants in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the loss and LAE reserves. The Company's management believes the resolution of those actions will not have a material adverse effect on the Company's financial position or results of operations.

Lease Commitments

The Company is obligated under approximately 25 leases for office space expiring at various dates through 2018.

16. Commitments and Contingencies – (continued)

Future minimum lease payments as of December 31, 2008 under non-cancellable operating leases for each of the next five years are approximately as follows:

2009	$ 5,755
2010	5,315
2011	4,214
2012	2,530
2013	2,304
2014 and Thereafter	9,474
	$29,592

Rent expense for the years ended December 31, 2008, 2007 and 2006 was $6,437, $3,379 and $1,871, respectively.

Employment Agreements

The Company has entered into employment agreements with approximately 20 of its key executives and employees. The agreements terminate on varying dates through 2010, contain annual minimum levels of compensation, and contain bonuses based on the Company's achieving certain financial targets. The annual future minimums in the aggregate are as follows through 2011:

2009	$5,792
2010	1,965
2011	979
	$8,736

17. Shareholder's Equity

Private Placement — On February 9, 2006, the Company sold 25,568,000 shares of Common Stock in a private placement in reliance on exemptions from registration under the Securities Act of 1933 at a price of $7.00 per share, subject to an initial purchaser's discount and placement fee of $0.49 per share. The net proceeds to the Company after expenses totaled $165,610.

Preferred Stock — In February 2006, all outstanding and issued shares of preferred stock were converted into 10,285,714 shares of common stock in conjunction with the private placement offering. Holders of the preferred shares were entitled to receive cumulative dividends out of any assets legally available at a rate of 8% of the liquidation value of $60,000 per share, per annum, commencing with the year ending December 31, 2003. All accrued and unpaid dividends on the preferred shares were required to be paid prior to the declaration or payment of dividends on the common stock. As of December 31, 2005, there were no undeclared dividends on the preferred stock. Total dividends declared and paid in 2005 were $10,800, which represented cumulative payments for 2003, 2004 and 2005 of $4,800, $4,800 and $1,200, respectively. As a result of the conversion of the preferred stock into common stock, the preferred stockholders waived the rights to receive any further undeclared or accrued dividends.

Common Stock — On September 1, 2006 the Company issued 16,000 restricted shares of Common Stock with a market value of $120 to certain employees. In 2007, the Company's principal shareholders contributed 24,089,286 shares of common stock with a carrying value of $294,612 in connection with a series of mergers to simplify the stock ownership of the Company. As a result, the Company issued 24,088,000 shares of common stock with a carrying value of $294,596. The Company purchased 5,000 and 18,900 shares during 2007 and 2008, respectively, as part of a share repurchase plan.

17. Shareholder's Equity – (continued)

Cash Dividend — For the years ended December 31, 2008, 2007 and 2006, the Company declared cash dividends of $0.18, $0.11 and $0.04, respectively.

Minimum Statutory Requirements — The Company's domestic and foreign insurance subsidiaries have minimum statutory capital and surplus requirements set by the state or nation of domicile. As of December 31, 2008 and 2007, the insurance subsidiaries capital and surplus exceeded these requirements.

Accumulated Other Comprehensive Income (Loss)

	Foreign Currency Items	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2005	$ (1,966)	$ (3,048)	$ (5,014)
Current period changes, net of tax	4,664	4,055	8,719
Balance, December 31, 2006	2,698	1,007	3,705
Current period changes, net of tax	(2,011)	(33,382)	(35,393)
Balance, December 31, 2007	687	(32,375)	(31,688)
Current period changes, net of tax	(13,906)	(61,121)	(74,127)
Balance, December 31, 2008	$(13,219)	$(93,496)	$(105,815)

18. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses:

	2008	2007	2006
Policy acquisition expenses	$100,806	$ 77,999	$46,240
Salaries and benefits	65,416	42,703	28,277
Other insurance general and administrative expense	37,525	34,664	20,804
	$203,747	$155,366	$95,321

19. Employee Benefit Plans

The Company sponsors a defined contribution pension plan. Participation in this plan is available to a majority of employees. Contributions to this plan were based on a percentage of employee contributions. The Cost of this plan for the Company was approximately $880, $454 and $411 for the years ended December 31, 2008, 2007 and 2006, respectively.

20. Dividend Restriction and Risk Based Capital

The Company's insurance subsidiaries are subject to statutory and regulatory restrictions, applicable to insurance companies, imposed by the states of domicile, which limit the amount of cash dividends or distributions that they may pay and was approximately $129,400 and $187,200 as of December 31, 2008 and 2007, respectively. The Company's insurance subsidiaries did not pay any dividends in 2008, 2007 and 2006.

Property and casualty insurance companies in the United States are subject to certain Risk-Based Capital ("RBC") requirements as specified by the National Association of Insurance Commissioners. Under such requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined on various risk factors. As of December 31, 2008 and 2007, the capital and surplus of the Company's four insurance subsidiaries domiciled in the United States exceeded the RBC requirements.

21. Statutory Financial Data

The Company's insurance subsidiaries file financial statements in accordance with statutory accounting practices ("SAP") prescribed or permitted by domestic or foreign insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between domestic and foreign jurisdictions. The principal differences relate to (1) acquisition costs incurred in connection with acquiring new business which are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) limitation on net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and loss expense, and unearned premium reserves are presented gross of reinsurance with a corresponding asset recorded; and (4) fixed maturity portfolios that qualify as available-for-sale are carried at fair value and changes in fair value are reflected directly in unassigned surplus, net of related deferred taxes. Statutory surplus and net income for insurance operations as reported to regulatory authorities were approximately as follows:

December 31, 2008	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$146,699	$164,027	$ 7,680	$13,169
RIC (domestic)	30,702	32,442	5,693	6,145
Wesco (domestic)	37,167	41,069	5,109	5,877
AIIC (domestic)	45,068	44,295	13,507	11,399
SNIC (domestic)	15,276	15,805	89	525
MCIC (domestic)	10,390	10,556	113	173
TLIC (domestic)	2,085	2,122	21	33
TUIC (domestic)	9,991	10,160	76	380
IGI (United Kingdom)	18,519	18,519	5,459	5,459
AIU (Ireland)	76,067	93,242	8,267	17,204
AII (Bermuda)	183,063	220,610	1,346	1,346

December 31, 2007	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$132,652	$131,857	$ 9,829	$10,614
RIC (domestic)	24,649	24,781	3,635	3,352
Wesco (domestic)	31,803	30,006	5,709	5,843
AIIC (domestic)	33,240	33,507	386	(2,600)
IGI (United Kingdom)	16,158	16,158	3,964	3,964
AIU (Ireland)	69,302	79,009	4,789	10,424
AII (Bermuda)	225,868	282,475	74,567	74,567

December 31, 2006	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$119,593	$122,389	$12,745	$15,734
RIC (domestic)	21,422	23,212	3,733	4,515
Wesco (domestic)	25,981	25,981	907	1,355
AIU (Ireland)	60,311	63,996	4,432	5,954
AII (Bermuda)	204,252	250,478	40,191	40,191

22. Geographic Information

Three of the Company's insurance subsidiaries (AII, AIU and IGI) operate outside the United States. Their assets and liabilities are located principally in the countries where the insurance risks are written or assumed. As of December 31, 2008 and 2007, approximately 45% and 49%, respectively, of the consolidated assets were located outside the United States. For the years ended 2008, 2007 and 2006, approximately 69%, 73% and 73%%, respectively, of the consolidated revenues were located in or derived from foreign countries.

The foreign and domestic components of operating income from continuing operations before provision for income taxes are as follows:

December 31,	2008	2007	2006
Domestic	$70,610	$55,325	$30,506
Foreign	46,584	81,484	40,191

The following table summarizes the Company's operations by major geographic segment:

	Domestic	Bermuda	Other Foreign
December 31, 2008:			
Revenue	$175,094	$327,409	$71,159
Property and equipment	14,840	—	267
December 31, 2007:			
Revenue	$158,120	$359,936	$58,868
Property and equipment	12,467	—	507
December 31, 2006:			
Revenue	$108,023	$254,421	$24,519
Property and equipment	11,064	—	111

23. Segments

The Company currently operates three business segments, Small Commercial Business (formerly known as Small Business Workers' Compensation Insurance); Specialty Risk and Extended Warranty Insurance; and Specialty Middle-Market Property and Casualty Insurance. During 2008, the Company completed a stock and asset purchase agreement with a subsidiary of Unitrin, Inc. whereby the Company acquired its retail commercial package business (''UBI'') including its distribution networks, renewal rights and four insurance companies through which Unitrin wrote its UBI business. This business was combined into the Company's worker's compensation segment and renamed the small commercial business segment. The ''Corporate & Other'' segment represents the activities of the holding company as well as a portion of fee revenue. In determining total assets (excluding cash and invested assets) by segment the Company identifies those assets that are attributable to a particular segment such as premium receivable, deferred acquisition cost, reinsurance recoverable and prepaid reinsurance while the remaining assets are allocated based on net written premium by segment. In determining cash and invested assets by segment, the Company matches certain identifiable liabilities such as unearned premium and loss and loss adjustment expense reserves by segment. The remaining cash and invested assets are then allocated based on net written premium by segment. Investment income and realized gains (losses) are determined by calculating an overall annual return on cash and invested assets and applying that overall return to the cash and invested assets by segment. Interest expense and income taxes are allocated based on net written premium by segment. Additionally, management reviews the performance of underwriting income in assessing the performance of and making decisions regarding the allocation of resources to the segments. Underwriting income excludes, primarily, commission and fee revenue, investment income and other revenues, other underwriting expenses, interest expense and income taxes. Management

23. Segments – (continued)

believes that providing this information in this manner is essential to providing Company's shareholders with an understanding of the Company's business and operating performance.

The following tables summarize business segments as follows for 2008, 2007 and 2006:

	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Middle-Market Property and Casualty Insurance	Corporate and Other	Total
Year ended December 31, 2008:					
Gross premium written	$ 458,842	$ 415,921	$ 235,811	$ —	$1,110,574
Net premium written	226,573	209,230	119,110	—	554,913
Change in unearned premium	(53,546)	(55,294)	(6,976)	—	(115,816)
Net earned premium	173,027	153,936	112,134	—	439,097
Ceding commission – primarily related party	59,032	26,998	29,444	—	115,474
Loss and loss adjustment expense	(90,004)	(78,832)	(69,467)	—	(238,303)
Acquisition costs and other underwriting expenses	(97,856)	(47,637)	(58,254)	—	(203,747)
	(187,860)	(126,469)	(127,721)	—	442,050
Underwriting income	44,199	54,465	13,857	—	112,521
Commission and fee income	12,646	8,750	—	7,582	28,978
Investment income, realized gain (loss) and loss on managed assets	(3,434)	(2,208)	(1,345)	(2,900)	(9,887)
Other expenses	(7,433)	(6,337)	(3,548)	—	(17,318)
Interest expense	(7,038)	(6,001)	(3,360)	—	(16,399)
Foreign currency gain	—	2,700	—	—	2,700
Provision for income taxes	(7,961)	(10,503)	(1,146)	(957)	(20,567)
Minority interest in net income of subsidiary	—	—	—	2,900	2,900
Net income	$ 30,979	$ 40,866	$ 4,458	$ 6,625	$ 82,928

23. Segments – (continued)

	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Middle-Market Property and Casualty Insurance	Corporate and Other	Total
Year ended December 31, 2007:					
Gross premium written	$ 308,815	$ 306,357	$224,219	$ —	$ 839,391
Net premium written	193,590	137,577	88,714	—	419,881
Change in unearned premium	44,073	(21,496)	1,778	—	24,355
Net earned premium	237,663	116,081	90,492	—	444,236
Ceding commission – primarily related party	36,392	11,544	14,906	—	62,842
Loss and loss adjustment expense	(139,081)	(81,864)	(56,041)	—	(276,986)
Acquisition costs and other underwriting expenses	(91,460)	(23,481)	(40,425)	—	(155,366)
	(230,541)	(105,345)	(96,466)	—	(432,352)
Underwriting income	43,514	22,280	8,932	—	74,726
Commission and fee income	8,943	7,141	—	4,284	20,368
Investment income, realized gain (loss) and loss on managed assets	26,130	14,588	14,813	(6,053)	49,478
Other expenses	(5,743)	(5,026)	(3,047)	—	(13,816)
Interest expense	(4,234)	(3,609)	(2,246)	—	(10,089)
Foreign currency gain	—	129	—	—	129
Provision for income taxes	(19,855)	(10,274)	(5,340)	(1,240)	(36,709)
Minority interest in net income of subsidiary	—	—	—	6,053	6,053
Net income	$ 48,755	$ 25,229	$ 13,112	$ 3,044	$ 90,140

23. Segments – (continued)

	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Middle-Market Property and Casualty Insurance	Corporate and Other	Total
Year ended December 31, 2006:					
Gross premium written	$ 258,930	$132,826	$134,318	$ —	$ 526,074
Net premium written	239,509	113,492	83,313	—	436,314
Change in unearned premium	(18,415)	(50,290)	(38,597)	—	(107,302)
Net earned premium	221,094	63,202	44,716	—	329,012
Ceding commission – primarily related party	2,938	—	—	—	2,938
Loss and loss adjustment expense	(132,823)	(49,247)	(28,071)	1	(210,140)
Acquisition costs and other underwriting expenses	(71,735)	(9,676)	(13,889)	(21)	(95,321)
	(204,558)	(58,923)	(41,960)	(20)	(305,461)
Underwriting income	19,474	4,279	2,756	(20)	26,489
Commission and fee income	7,199	5,204	—	—	12,403
Investment income, realized gain (loss) and income on managed assets	26,895	9,899	5,572	244	42,610
Other expenses	(5,521)	(3,314)	(1,746)	20	(10,561)
Interest expense	(2,924)	(1,386)	(1,016)	—	(5,326)
Foreign currency gain (loss)	—	833	—	—	833
Provision for income taxes	(12,118)	(4,166)	(1,495)	—	(17,779)
Minority interest in net income of subsidiary	—	—	—	(244)	(244)
Net income	$ 33,005	$ 11,349	$ 4,071	$ —	$ 48,425

	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Middle-Market Property and Casualty Insurance	Corporate and Other	Total
As of December 31, 2008:					
Fixed assets	$ 6,484	$ 5,528	$ 3,095	$ —	$ 15,107
Goodwill and intangible assets	79,199	10,821	12,405	—	102,425
Total assets	1,697,860	933,035	512,996	—	3,143,893
As of December 31, 2007					
Fixed assets	$ 5,445	$ 4,641	$ 2,888	$ —	$ 12,974
Goodwill and intangible assets	28,608	12,799	11,825	—	53,232
Total assets	1,207,453	719,463	377,337	18,541	2,322,794

24. Assets Under Management

In December 2006, the Company formed two, wholly-owned subsidiaries currently named, Leap Tide Capital Management, Inc. (LTCM) and Leap Tide Capital Management GP, LLC (LTCM). Concurrently with these formations, the Company also formed Leap Tide Partners, LP (LTP), a hedge fund limited partnership, for the purpose of managing the assets of its limited partners. LTCM has a 1% ownership in LTP. LTCMI earns a management fee equal to 1% of the LTP's assets. LTCM also earns an incentive fee of 20% of the cumulative profits of the LTP. Through March 31, 2008 LTCM, the general partner of LTP, consolidated LTP in accordance with EITF 04-05 "Determining Whether a General Partner, or the General Partners as a Group Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights," as the rights of the limited partners did not overcome the rights of the general partner. Effective April 1, 2008, the limited partnership agreement was amended such that a majority of the limited partners had the right to liquidate the limited partnership. In addition the Company ceased being the managing member of LTCM. Due to this amendment, in accordance with EITF 04-05, the Company ceased to consolidate LTP as of April 1, 2008.

Through March 31, 2008, we allocated an equivalent portion of the limited partners' income or loss to minority interest. For the years ended December 31, 2008, 2007 and 2006, LTP had an investment (loss) gain of $(2,900), $(6,053), $244, respectively. The management companies earned approximately $603, $1,073 and $26 of fees under the agreement during the years ended December 31, 2008, 2007 and 2006, respectively.

The original cost, estimated market value and gross unrealized appreciation and depreciation of equity securities are presented in the tables below:

(a) Trading Securities

Year Ended December 31, 2007	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Equity securities	$23,295	$451	$(6,685)	$17,061
Securities sold but not yet purchased, at market	(2,844)	419	(460)	(2,885)
Total	$20,451	$870	$(7,145)	$14,176

Proceeds from the sale of investments in trading securities during the years ended December 31, 2008, 2007 and 2006 were approximately $2,620, $25,284 and $1,974, respectively. Purchases of investments during the years ended December 31, 2008, 2007 and 2006 were approximately $7,236, $37,928 and $10,131, respectively.

(b) Investment Income

Net investment income for the years ended December 31, 2008, 2007 and 2006 was derived from the following sources:

	2008	2007	2006
Equity securities:			
Dividends	$ 8	$ 148	$ 1
Realized gain (loss)	431	161	30
Unrealized gain (loss)	(3,297)	(6,408)	130
Cash and cash equivalents	6	291	109
	(2,852)	(5,808)	270
Less: Investment expenses	(48)	(245)	(26)
	$(2,900)	$(6,053)	$244

25. Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results of operations:

	2008			
	March 31,	June 30,	September 30,	December 31,
Earned premium	$97,413	$115,945	$92,333	$133,406
Investment Income	13,531	14,190	15,391	14,486
Net income	22,263	26,350	9,361	24,954
Basic EPS	0.37	0.44	0.16	0.42
Diluted EPS	0.37	0.43	0.15	0.41

	2007			
	March 31,	June 30,	September 30,	December 31,
Earned premium	$118,692	$130,420	$81,788	$113,336
Investment Income	11,391	13,019	13,916	12,561
Net income	21,478	21,396	24,434	22,378
Basic EPS	0.36	0.36	0.41	0.38
Diluted EPS	0.36	0.35	0.40	0.38

	2006			
	March 31,	June 30,	September 30,	December 31,
Earned premium	$69,810	$72,435	$83,526	$103,241
Investment Income	5,335	6,086	7,539	8,623
Income from continuing operations	9,259	9,553	12,413	17,200
Net income	9,259	9,803	12,413	17,381
Basic EPS	0.20	0.16	0.21	0.29
Diluted EPS	0.20	0.16	0.21	0.29

26. Subsequent Events

In February 2009, AII and Maiden Insurance amended their Reinsurance Agreement to clarify that (i) AII would offer Maiden Insurance the opportunity to reinsure Excess Retention Business, which is defined as a policy issued by an Insurance Subsidiary with respect to which the Insurance Subsidiary's retention is greater than $5 million and (ii) the deduction for the cost of inuring reinsurance from Affiliate Subject Premium ceded to Maiden Insurance is net of ceding commission. In addition, the Reinsurance Agreement has been amended by deleting the limitation on Maiden Insurance's maximum liability in respect of a single loss, which, under certain circumstances, was $2 million. Pursuant to the Reinsurance Agreement, as amended, AII and Maiden share, proportionally, in all premium and losses ceded thereunder.

During February and March 2009, a Company subsidiary purchased 701,728 of the Company's shares as part of the Company's share repurchase plan.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
AmTrust Financial Services, Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of AmTrust Financial Services, Inc. as of December 31, 2009 and 2008 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmTrust Financial Services, Inc. at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2010 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP
New York, New York
March 15, 2010

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Par Value per Share)

	December 31,	
	2009	2008
ASSETS		
Investments:		
Fixed maturities, held-to-maturity, at amortized cost (fair value $0; $50,242)	$ —	$ 48,881
Fixed maturities, available-for-sale, at market value (amortized cost $1,080,914; $988,779)	1,085,362	910,376
Equity securities, available-for-sale, at market value (cost $60,639; $84,090)	50,355	28,828
Short-term investments	31,265	167,845
Other investments	14,034	13,457
Total investments	1,181,016	1,169,387
Cash and cash equivalents	233,810	192,053
Accrued interest and dividends	7,617	9,028
Premiums receivable, net	495,871	419,577
Note receivable – related party	23,224	21,591
Funds held with reinsurance companies	110	110
Reinsurance recoverable	349,695	363,608
Reinsurance recoverable – related party	293,626	221,214
Prepaid reinsurance premium	148,425	128,519
Prepaid reinsurance premium – related party	262,128	243,511
Prepaid expenses and other assets	84,998	72,221
Federal income tax receivable	364	4,667
Deferred policy acquisition costs	180,179	103,965
Deferred income taxes	7,615	76,910
Property and equipment, net	15,858	15,107
Goodwill	53,156	49,794
Intangible assets	62,672	52,631
	$3,400,364	$3,143,893
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss expense reserves	$1,091,944	$1,014,059
Unearned premiums	871,779	759,915
Ceded reinsurance premiums payable	75,032	59,990
Ceded reinsurance premium payable – related party	86,165	102,907
Reinsurance payable on paid losses	1,238	8,820
Funds held under reinsurance treaties	690	228
Securities sold but not yet purchased, at market	16,315	22,608
Securities sold under agreements to repurchase, at contract value	172,774	284,492
Accrued expenses and other current liabilities	180,325	144,304
Derivatives liabilities	1,893	1,439
Note payable on collateral loan – related party	167,975	167,975
Non interest bearing note payable – net of unamortized discount of $1,372; $2,439	21,128	27,561
Term loan	20,000	33,333
Junior subordinated debt	123,714	123,714
Total liabilities	2,830,972	2,751,345
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value; 100,000 shares authorized, 84,179 and 84,146 issued in 2009 and 2008, respectively; 59,314 and 60,033 outstanding in 2008 and 2007, respectively	842	842
Preferred stock, $.01 par value; 10,000 shares authorized	—	—
Additional paid-in capital	543,977	539,421
Treasury stock at cost; 24,866 and 24,113 shares in 2009 and 2008, respectively	(300,889)	(294,803)
Accumulated other comprehensive loss	(17,020)	(105,815)
Retained earnings	342,482	252,903
Total stockholders' equity	569,392	392,548
	$3,400,364	$3,143,893

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)

	Year Ended December 31,		
	2009	2008	2007
Revenues:			
Premium income:			
Net premium written	$643,426	$ 554,913	$419,881
Change in unearned premium	(69,544)	(115,816)	24,355
Net earned premium	573,882	439,097	444,236
Ceding commission – primarily related party	113,931	115,474	62,842
Service and fee income	30,690	28,978	20,368
Net investment income	54,465	59,476	50,887
Net realized gain (loss) on investments	(33,579)	(64,585)	4,644
Other investment (loss) income on managed assets	—	(2,900)	(6,053)
Total revenues	739,389	575,540	576,924
Expenses:			
Loss and loss adjustment expense	327,771	238,303	276,986
Acquisition costs and other underwriting expenses	244,279	203,747	155,366
Other underwriting expense	22,232	17,318	13,816
Total expenses	594,282	459,368	446,168
Income before other income (expense), income tax expense and non-controlling interest	145,107	116,172	130,756
Other income (expenses):			
Foreign currency gain	2,459	2,700	129
Interest expense	(16,884)	(18,277)	(10,089)
Total other expenses	(14,425)	(15,577)	(9,960)
Income before provision for income tax expense and non-controlling interest	130,682	100,595	120,796
Income tax expense	27,459	20,567	36,709
Non-controlling interest in net income of subsidiary	—	(2,900)	(6,053)
Net income	$103,223	$ 82,928	$ 90,140
Basic earnings per share	$ 1.74	$ 1.38	$ 1.50
Diluted earnings per share	$ 1.72	$ 1.37	$ 1.49
Dividends declared per common share	$ 0.23	$ 0.18	$ 0.11
Weighted average common shares outstanding:			
Basic	59,433	59,991	59,958
Diluted	59,994	60,671	60,674
Net realized gain (loss) on investments:			
Total other-than-temporary impairment losses	(24,778)	(52,773)	(8,367)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(24,778)	(52,773)	(8,367)
Other net realized gain (loss) on investments	(8,801)	(11,812)	13,011
Net realized gain (loss) on investments	(33,579)	(64,585)	4,644

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)
Years Ended December 31, 2009, 2008, 2007

	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2006	600	—	238,938	—	3,705	97,236	340,479
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	90,140	90,140
Foreign currency translation	—	—	—	—	(2,011)	—	(2,011)
Unrealized holding loss on investments	—	—	—	—	(32,954)	—	(32,954)
Reclassification adjustment for securities sold during the year	—	—	—	—	(428)	—	(428)
Comprehensive income							54,747
Stock option compensation	—	—	1,830	—	—	—	1,830
Stock repurchase	—	—	—	(59)	—	—	(59)
Acquisition of subsidiary	—	—	—	(294,612)	—	—	(294,612)
Issuance of common stock	241	—	294,355	—	—	—	294,596
Common stock dividend	—	—	—	—	—	(6,595)	(6,595)
Balance, December 31, 2007	841	—	535,123	(294,671)	(31,688)	180,781	390,386
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	82,928	82,928
Foreign currency translation	—	—	—	—	(13,006)	—	(13,006)
Unrealized holding loss on investments	—	—	—	—	(71,502)	—	(71,502)
Reclassification adjustment for securities sold during the year	—	—	—	—	10,381	—	10,381
Comprehensive income							8,801
Stock option compensation	—	—	3,136	—	—	—	3,136
Stock repurchase	—	—	—	(132)	—	—	(132)
Exercise of stock options	1	—	1,162	—	—	—	1,163
Common stock dividend	—	—	—	—	—	(10,806)	(10,806)
Balance, December 31, 2008	842	—	539,421	(294,803)	(105,815)	252,903	392,548
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	103,223	103,223
Foreign currency translation	—	—	—	—	4,863	—	4,863
Unrealized holding loss on investments	—	—	—	—	63,370	—	63,370
Reclassification adjustment for securities sold during the year	—	—	—	—	20,562	—	20,562
Comprehensive income							192,018
Stock option compensation	—	—	4,241	—	—	—	4,241
Stock repurchase	—	—	—	(6,086)	—	—	(6,086)
Exercise of stock options	—	—	315	—	—	—	315
Common stock dividend	—	—	—	—	—	(13,644)	(13,644)
Balance, December 31, 2009	842	—	543,977	(300,889)	(17,020)	342,482	569,392

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income	$ 103,223	$ 82,928	$ 90,140
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,791	8,069	5,022
Realized loss (gain) on marketable securities	8,801	4,825	(13,011)
Non-cash write-down of marketable securities	24,778	52,773	8,367
Bad debt expense	4,843	2,804	2,225
Stock option compensation	4,241	3,136	1,830
Discount on notes payable	1,067	716	—
Change in deferred tax asset	57,673	(40,408)	(26,960)
Foreign currency gain	(2,459)	(2,700)	(129)
Changes in assets – (increase) decrease:			
Premiums receivable	(81,137)	(117,653)	(62,448)
Reinsurance recoverable	13,913	(137,639)	(11,234)
Reinsurance recoverable – related party	(72,412)	(165,241)	(55,973)
Deferred policy acquisition costs	(76,214)	(33,062)	(14,469)
Prepaid reinsurance premiums	(19,906)	(20,934)	(32,096)
Prepaid reinsurance premiums – related party	(18,617)	(106,412)	(137,099)
Prepaid expenses and other assets	(8,696)	(48,399)	8,259
Changes in liabilities – increase (decrease):			
Reinsurance payable	15,042	(25,182)	16,563
Reinsurance payable – related party	(16,742)	64,115	38,792
Loss and loss expense reserves	77,885	238,667	160,612
Unearned premiums	111,864	232,077	146,266
Funds held under reinsurance treaties	462	(4,172)	(5,548)
Note payable – related party	—	54,747	113,228
Accrued expenses and other current liabilities	27,191	21,253	15,881
Net cash provided by operating activities	163,591	64,308	248,218
Cash flows from investing activities:			
Purchases of held to maturity fixed maturities	—	—	(61,078)
Purchases of available for sale fixed maturities	(224,875)	(600,926)	(1,096,784)
Purchases of equity securities	(26,893)	(44,834)	(141,092)
Purchases of other investments	—	(488)	(12,184)
Proceeds from maturities of held to maturity fixed maturities	48,881	113,020	265,728
Proceeds from sales of available for sale fixed maturities	350,837	399,088	581,642
Proceeds from sales of equity securities	21,637	28,441	130,342
Proceeds from (purchases of) short term investments, net	(136,580)	(19,304)	47,599
Proceeds from other investments	(576)	15,065	—
Note receivable – related party	—	(2,000)	(18,000)
Acquisition of a subsidiary, net of cash obtained	6,545	(55,883)	(35,742)
Acquisition of intangible assets from renewal rights	(7,904)	(3,204)	(1,800)
Capital expenditures	(5,519)	(4,975)	(1,751)
Net cash provided by (used in) investing activities	25,553	(176,000)	(343,120)
Cash flows from financing activities:			
Proceeds from issuance of note payable	—	40,000	—
Repayment of notes payable	(13,333)	(6,667)	—
Repayment of note to seller	(7,500)	—	—
Issuance of junior subordinate debentures	—	—	40,000
Repurchase agreements, net	(111,718)	138,089	146,402
Stock option conversion	315	1,163	—
Purchase of shares	(6,086)	(132)	(59)
Debt financing fees	—	(52)	(820)
Dividends on common stock	(13,088)	(10,200)	(5,396)
Net cash provided (used) by financing activities	(151,410)	162,201	180,127
Effect of exchange rate changes on cash	4,023	(3,793)	196
Net (decrease) increase in cash and cash equivalents	41,757	46,716	85,421
Cash and cash equivalents, beginning year	192,053	145,337	59,916
Cash and cash equivalents, end of year	$ 233,810	$ 192,053	$ 145,337
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	$ 14,601	$ 14,428	$ 9,240
Debt issuance costs	—	77	1,238
Income taxes	18,802	21,805	35,632

See accompanying notes to consolidated financial statements.

Supplemental non-cash financing activity:

In 2008, the Company issued a promissory note to Unitrin in the amount of $30,000 in connection with the acquisition of UBI business. The note is non interest bearing and required four annual principal payments of $7,500 beginning on June 1, 2009 through June 1, 2012. The Company calculated imputed interest of $3,155 based on interest rates available to the Company at the date of acquisition which was 4.5%. Accordingly, the note's carrying balance was adjusted to $26,845 at the acquisition. The Company included $1,016 and $716 of amortized discount on the note in its results of operations for the year ended December 31, 2009 and 2008, respectively. The note's carrying value at December 31, 2009 and 2008 was $21,128 and $27,561, respectively.

In 2007, the Company's principal shareholders contributed 24,089 shares of common stock with a carrying value of $294,612 in connection with a series of mergers to simplify the stock ownership of the Company. As a result, the Company issued 24,088 shares of common stock with a carrying value of $294,596.

See accompanying notes to consolidated financial statements.

1. Nature of Operations

AmTrust Financial Services, Inc. (the "Company") is an insurance holding company formed under the laws of Delaware. Through its wholly-owned subsidiaries, the Company provides specialty property and casualty insurance focusing on workers' compensation and commercial package coverage for small business, specialty risk and extended warranty coverage, and property and casualty coverage for middle market business.

The Company transacts business through eleven insurance company subsidiaries: Technology Insurance Company, Inc. ("TIC"), Rochdale Insurance Company ("RIC"), Wesco Insurance Company ("WIC"), Associated Industries Insurance Company, Inc. ("AIIC"), Milwaukee Casualty Insurance Company ("MCIC"), Security National Insurance Company ("SNIC"), AmTrust Insurance Company of Kansas, Inc. ("AICK") and Trinity Lloyd's Insurance Company ("TLIC"), which are domiciled in New Hampshire, New York, Delaware, Florida, Wisconsin, Texas, Kansas and Texas respectively; and AmTrust International Insurance Ltd. ("AII"), AmTrust International Underwriters Limited ("AIU") and IGI Insurance Company, Ltd. ("IGI"), which are domiciled in Bermuda, Ireland and England, respectively.

2. Significant Accounting Policies

Basis of Reporting — The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries. The Company uses the equity method of accounting for its investment in Warrantech in which it owns a 27% ownership interest. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Premiums — Insurance premiums, other than specialty risk and extended warranty, are recognized as earned on the straight-line basis over the contract period. Insurance premiums on specialty risk and extended warranty are earned based on estimated program coverage period. These estimates are based on the expected distribution of coverage periods by contract at inception, because a single contract may contain multiple coverage period options, these estimates are revised based on the actual coverage period selected by the insured. Unearned premiums represent the portion of premiums written which is applicable to the unexpired term of the contract or policy in force. Premium adjustments on contracts and audit premiums are based on estimates made over the contract period. Premiums earned but not yet billed to insureds are estimated and accrued, net of related costs. These estimates are subject to the effects of trends in payroll audit adjustments. Although considerable variability is inherent in such estimates, management believes that the accrual for earned but unbilled premiums is reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The Company historically has used a percentage of premium for establishing its allowance for doubtful accounts. The Company reviews its bad debt write-offs at least annually and adjusts its premium percentage as required. Allowance for doubtful accounts were approximately $9,396 and $8,131 at December 31, 2009 and 2008, respectively.

Ceding Commission Revenue — Commissions on reinsurance premiums ceded are earned in a manner consistent with the recognition of the direct acquisition costs of underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured. Certain reinsurance agreements contain provisions whereby the ceding commission rates vary based on the loss experience under the agreements. The Company records ceding commission revenue based on its current estimate of subject losses. The Company records adjustments to the ceding commission revenue in the period that changes in the estimated losses are determined.

2. Significant Accounting Policies – (continued)

Loss and Loss Adjustment Expenses — Loss and loss adjustment expenses (''LAE'') represent the estimated ultimate net costs of all reported and unreported losses incurred through December 31. The reserves for unpaid losses and LAE are estimated using individual case-basis valuations and statistical analyses and are not discounted. Although considerable variability is inherent in the estimates of reserves for losses and LAE, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

Cash and Cash Equivalents — Cash and cash equivalents are presented at cost, which approximates fair value. The Company considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents. The Company maintains its cash balances at several financial institutions. The Federal Deposit Insurance Corporation (''FDIC'') secures accounts up to $250 at these institutions. Management monitors balances in excess of insured limits and believes they do not represent a significant credit risk to the Company.

Investments — The Company accounts for its investments in accordance with ASC 320 (formerly known as Statement of Financial Accounting Standards No. 115, *''Accounting for Certain Investments in Debt and Equity Securities''*), which requires that fixed-maturity and equity securities that have readily determined fair values be segregated into categories based upon the Company's intention for those securities. In accordance with ASC 320, the Company has classified its fixed-maturities and equity securities as available-for-sale. The Company may sell its available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors. Available for sale fixed-maturity securities and equity securities are reported at their estimated fair values based on quoted market prices or a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of comprehensive income in stockholders' equity. Realized gains and losses are determined on the specific identification method.

Quarterly, the Company's Investment Committee (''Committee'') evaluates each security which has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment. The Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. Some of the criteria the Company considers include:

- the current fair value compared to amortized cost;
- the length of time the security's fair value has been below its amortized cost;
- specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments;
- whether management intends to sell the security and, if not, whether it is not more than likely than not that the Company will be required to sell the security before recovery of its amortized cost basis;
- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings; and
- the occurrence of a discrete credit event resulting in the issuer defaulting on material outstanding obligation or the issuer seeking protection under bankruptcy laws.

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. The Company writes down investments immediately which it considers to be impaired based on the above criteria collectively. The investment committee maintains an individual list of investments that have been in a significant unrealized loss position in excess of 12 months for review of

2. Significant Accounting Policies – (continued)

possible impairment. Absent any of the above criteria, the Company generally considers an investment to be impaired when it has been in a significant unrealized loss position for over 24 months.

Based on guidance in FASB ASC 320-10-65 (Prior authoritative literature: FSP 115-2 *Recognition and Presentation of Other-Than-Temporary-Impairments*), in the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is not more than likely than not that such holder will be required to sell the debt security before recovery of its amortized cost basis, is required to separate the decline in fair value into (a) the amount representing the credit loss and (b) the amount related to other factors. The amount of total decline in fair value related to the credit loss shall be recognized in earnings as an Other Than Temporary Impairment (''OTTI'') with the amount related to other factors recognized in accumulated other comprehensive loss net loss, net of tax. OTTI credit losses result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of the loss realization. During 2009, 2008 and 2007, the Company recorded impairment write-downs of $24,778, $52,773 and $8,367, respectively after determining that certain of its investments were OTTI.

The following are the types of investments the Company has:

(a) Short-term investments — Short term investments are carried at cost, which approximates fair value, and include investments with maturities between 91 days and less than one year at date of acquisition. As of December 31, 2009 and 2008, short term investments consisted primarily of money market investments.

(b) Fixed maturities and equity securities — Fixed maturities and equity securities (common stocks, mutual funds and non-redeemable preferred stock) are classified as available-for-sale and carried at fair value. Unrealized gains or losses on available-for-sale securities are reported as a component of accumulated other comprehensive income.

(c) Mortgage and asset backed securities — For mortgage and asset backed securities, the Company recognizes income using the retrospective adjustment method based on prepayments and the estimated economic life of the securities. The effective yield reflects actual payments to date plus anticipated future payments.

(d) Limited partnerships — The Company uses the equity method of accounting for investments in limited partnerships in which its ownership interest of the limited partnership enables the Company to influence the operating or financial decisions of the investee company, but the Company's interest in the limited partnership does not require consolidation. The Company's proportionate share of equity in net income of these unconsolidated affiliates is reported in net investment income.

(e) Derivatives and hedging activities — The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio. Derivatives are financial arrangements among two or more parties with returns linked to an underlying equity, debt, commodity, asset, liability, foreign exchange rate or other index. Unless subject to a scope exclusion, the Company carries all derivatives on the consolidated balance sheet at fair value. The changes in fair value of the derivative are presented as a component of operating income. The Company primarily utilizes the following types of derivatives:

- Credit default swap contracts (''CDS''), which, are valued in accordance with the terms of each contract based on the current interest rate spreads and credit risk of the referenced obligation of the underlying issuer and interest accrual through valuation date. Fair values are based on the price of the underlying bond on the valuation date. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract. Such amounts are limited to the total equity of the account;

2. Significant Accounting Policies – (continued)

- Interest rate swaps (''IS''), which are valued in terms of the contract between the Company and the issuer of the swaps, are based on the difference between the stated floating rate of the underlying indebtedness, in this case LIBOR, and a predetermined fixed rate for such indebtedness with the result that the indebtedness carries a net fixed interest rate; and
- Contracts for difference contracts (''CFD''), which, are valued based on the market price of the underlying stock. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract.

(f) Securities sold under agreements to repurchase, at contract value — Securities sold under agreements to repurchase are accounted for as collateralized borrowing transactions and are recorded at their contracted repurchase amounts, plus accrued interest. The Company minimizes the credit risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring exposure and collateral value and generally requiring additional collateral to be deposited with AmTrust when necessary.

Net investment income consists primarily of interest and dividends less expenses. Interest on fixed maturities, adjusted for any amortization of premium or discount, is recorded as income when earned. Investment expenses are accrued as incurred. Realized investment gains or losses are computed using the specific costs of securities sold, and, if applicable, include write-downs on investments having other-than-temporary decline in value.

Fair Value of Financial Instruments — The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in Accounting Standards Codification (''ASC'') 820 *Fair Value Measurements and Disclosures*. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. Additionally, valuation of fixed maturity investments is more subjective when markets are less liquid due to lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur. Fair values of other financial instruments approximate their carrying values.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in the Level 1 hierarchy. The Company receives the quoted market prices from nationally recognized third-party pricing services (''pricing service''). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value. This pricing method is used, primarily, for fixed maturities. The fair value estimates provided by the pricing service are included in the Level 2 hierarchy. If the Company determines that the fair value estimate provided by the pricing service does not represent fair value or if quoted market prices and an estimate from pricing services are unavailable, the Company produces an estimate of fair value based on dealer quotations of the bid price for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, the Company will then determine if the estimate is Level 2 or Level 3 hierarchy.

Fixed Maturities. The Company utilized a pricing service to estimate fair value measurements for all of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted market prices in active markets. Since fixed maturities other than U.S. treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements using relevant

2. Significant Accounting Policies – (continued)

market data, benchmark curves, sector groupings and matrix pricing. The pricing service utilized by the Company has indicated it will produce an estimate of fair value only if there is verifiable information to produce a valuation. As the fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes, the estimates of fair value other than U.S. Treasury securities are included in Level 2 of the hierarchy. U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted prices. The Company's Level 2 investments include obligations of U.S. government agencies, municipal bonds, corporate debt securities and other mortgage backed securities.

Equity Securities. For public common and preferred stocks, the Company receives estimates from a pricing service that are based on observable market transactions and includes these estimates in Level 1 hierarchy.

Other Investments. The Company has approximately 1% of its investment portfolio, in limited partnerships or hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy. The Company has determined that its investments in Level 3 securities are not material to its financial position or results of operations.

Derivatives. The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. Derivatives, as defined in FASB ASC 815-10-15 (Prior authoritative literature: SFAS 133 ''Accounting for Derivative Instruments and Hedging Activities''), are financial arrangements among two or more parties with returns linked to an underlying equity, debt, commodity, asset, liability, foreign exchange rate or other index. The Company carries all derivatives on its consolidated balance sheet at fair value. The changes in fair value of the derivative are presented as a component of operating income. Changes in fair value of a derivative used as a hedge are presented as a component of other comprehensive income. The Company primarily utilizes the following types of derivatives at any one time:

- Credit default swap contracts (''CDS''), which are valued in accordance with the terms of each contract between the Company and the issuer of the CDS based on the current interest rate spreads and credit risk of the referenced obligation of the underlying issuer and interest accrual through valuation date. Fair values are based on the price of the underlying bond on the valuation date. (The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract.) Such amounts are limited to the total equity of the account;
- Interest rate swaps (''IS''), which are valued in terms of the contract between the Company and the issuer of the swaps, are based on the difference between the stated floating rate of the underlying indebtedness, and a predetermined fixed rate for such indebtedness with the result that the indebtedness carries a net fixed interest rate; and
- Contracts for difference contracts (''CFD''), which, are valued based on the market price of the underlying stock. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract.

The Company estimates fair value using information provided by the portfolio manager for IS and CDS and the counterparty for CFD and classifies derivatives as Level 3 hierarchy.

Deferred Policy Acquisition Costs — The Company defers commission expenses, premium taxes and assessments as well as certain marketing, sales, underwriting and safety costs that vary with and are primarily related to the acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. The Company may realize deferred policy acquisition costs only if the ratio

2. Significant Accounting Policies – (continued)

of loss and loss adjustment expense reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%, the Company could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve. The Company considers anticipated investment income in determining whether a premium deficiency relating to short duration contracts exists. The change in net deferred acquisition costs was $76,214, $33,062 and $27,839 for the years ended December 31, 2009, 2008 and 2007, respectively. The amortization for deferred acquisition costs was $73,531, $70,250 and $36,551 in 2009, 2008 and 2007, respectively.

Reinsurance — Reinsurance premiums, losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums earned and losses incurred ceded to other companies have been recorded as a reduction of premium revenue and losses and LAE. Commissions allowed by reinsurers on business ceded have been recorded as ceding commission revenue. Reinsurance recoverables are reported relating to the portion of reserves and paid losses and LAE that are ceded to other companies. The Company remains liable for all loss payments, notwithstanding the failure to collect from the reinsurer.

Assessments — Insurance related assessments are accrued in the period in which they have been incurred. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. The Company is subject to a variety of assessments, such as assessments by state guaranty funds and workers' compensation second injury funds. State guaranty funds assessments are used by state insurance regulators to cover losses of policyholders of insolvent insurance companies and for the operating expenses of such agencies. The Company uses estimated assessment rates in determining the appropriate assessment expense and accrual. The Company uses estimates derived from state regulators and/or National Association of Insurance Commissioners (''NAIC'') Tax and Assessments Guidelines. Assessment expense for the years ended December 31, 2009, 2008 and 2007 was approximately $8,304, $14,464 and $9,640, respectively.

Property and Equipment — Property and equipment are recorded at cost. Maintenance and repairs are charged to operations as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, as follows:

Building	40 years
Equipment	5 years
Computer equipment and software	3 to 5 years
Leasehold improvements	Lesser of lease term or 15 years

The Company accounts for its internal use software under ASC 350 ''Intangibles-Goodwill and Other''. Accordingly, the Company capitalizes costs of computer software developed or obtained for internal use that is specifically identifiable, has determinable lives and relates to future use.

Goodwill and Intangible Assets — The Company accounts for goodwill and intangible assets in accordance with ASC 350 *Intangibles-Goodwill and Other*. A purchase price paid that is in excess of net assets (''goodwill'') arising from a business combination is recorded as an asset, and is not amortized. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statement of operations. Goodwill and intangible assets with an indefinite useful life were carried at $70,924 and $68,645 as of December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, intangible assets with a finite life were valued at $44,902 and

2. Significant Accounting Policies – (continued)

$33,780, respectively. For the years ended December 31, 2009, 2008 and 2007, the Company amortized approximately $4,023, $4,106 and $2,800, respectively related to its intangible assets with a finite life.

Income Taxes — The Company joins its domestic subsidiaries in the filing of a consolidated Federal income tax return and is party to Federal income tax allocation agreements. Under the tax allocation agreements, the Company pays to or receives from its subsidiaries the amount, if any, by which the group's Federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated Federal return.

Deferred income taxes reflect the impact of ''temporary differences'' between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The deferred tax asset primarily consists of book versus tax differences for premiums earned, loss and loss adjustment expense reserve discounting, policy acquisition costs, earned but unbilled premiums, and unrealized holding gains and losses on marketable equity securities. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income, primarily unrealized investment gains and losses and foreign currency translation gains and losses, are recorded directly to other comprehensive income. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense.

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that we will generate future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. If necessary, the Company establishes a valuation allowance to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

The Company recognizes tax benefits only for tax positions that are more likely than not to be sustained upon examination by taxing authorities. The Company's policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. Tax years 2005 through 2008 still subject to examination. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

Foreign Currency — The Company assigns functional currencies to its foreign operations, which are generally the currencies of the local operating environment. Foreign currency amounts are remeasured to the functional currency and the resulting foreign exchange gains and losses are reflected in earnings. Functional currency amounts from the Company's foreign operations are then translated into U.S. dollars. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of accumulated other changes in equity from nonowner sources. The foreign currency remeasurement and translation are calculated using current exchange rates for the items reported on the balance sheets and average exchange rates for items recorded in earnings.

Stock Compensation Expense — The Company follows ASC 720 *Compensation-Stock Compensation* and recognizes compensation expense for its share-based payments based on the fair value of the awards. Share-based payments include restricted stock and stock option grants under the Company's 2005 Equity Incentive Plan. ASC 720 requires share-based compensation expense recognized to be based on estimated grant date fair value.

Earnings Per Share — Basic earnings per share are computed based on the weighted-average number of common shares outstanding. Diluted earnings per share are computed using the weighted-average number of common shares outstanding during the period adjusted for the dilutive impact of share options and unvested restricted shares using the treasury stock method.

2. Significant Accounting Policies – (continued)

Treasury Stock — The Company accounts for the treasury stock at the repurchase price as a reduction to stockholders' equity.

Concentration and Credit Risk — Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, investments and accounts receivable. Investments are diversified through many industries and geographic regions through the use of money managers who employ different investment strategies. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and investments. At December 31, 2009 and 2008, the outstanding premiums and notes receivable balance is generally diversified due to the number of entities composing the Company's customer base. To reduce credit risk, the Company performs ongoing evaluations of its customers' financial condition. The Company also has receivables from its reinsurers. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company periodically evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. It is the policy of management to review all outstanding receivables at period end as well as the bad debt write-offs experienced in the past and establish an allowance for doubtful accounts, if deemed necessary.

Non-controlling Interest — The ownership interest in consolidated subsidiaries of non-controlling interests is reflected as non-controlling interest. The Company's consolidation principles would also consolidate any entity in which the Company would be deemed a primary beneficiary. Non-controlling interest expense represents such non-controlling interests' in the earnings of that entity. All significant transactions and account balances between the Company and its subsidiaries were eliminated during consolidation.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions, which include the reserves for losses and loss adjustment expenses, are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with the recognition and amortization of deferred policy acquisition costs, the determination of fair value of invested assets and related impairments, and the determination of goodwill and intangible impairments require considerable judgment by management. On an on-going basis, management reevaluates its assumptions and the methods of calculating its estimates. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

Reclassifications — Certain accounts in the prior years' consolidated financial statements have been reclassified for comparative purposes to conform to the current year's presentation. This did not have any impact on the net income of the Company.

Recent Accounting Pronouncements — In January 2010, the Financial Accounting Standards Board ("FASB") issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. The standard amends ASC Topic 820, *Fair Value Measurements and Disclosures* to require additional disclosures related to transfers between levels in the hierarchy of the fair value measurement. The standard is effective for interim and annual reporting periods beginning after December 15, 2009. The standard does not change how fair values are measured. Accordingly, the standard did not have an impact on the Company.

In June 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162* ("The Codification"). The Codification supersedes all existing U.S. accounting standards issued by the FASB and other related private sector standard setters into a single source

2. Significant Accounting Policies – (continued)

of authoritative accounting principles arranged by topic and will serve as the single source of authoritative non-governmental U.S. Generally Accepted Accounting Principles. The codification was effective on a prospective basis for interim and annual reporting periods ending after September 15, 2009. The adoption of the Codification changed the Company's references to U.S. GAAP accounting standards but did not impact the Company's results of operations, financial position or liquidity.

In June 2009, the FASB issued new guidance on the accounting for the transfers of financial assets. The new guidance, which was issued as SFAS No. 166, *Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140* has not yet been adopted into Codification. SFAS 166 requires additional disclosures for transfers of financial assets, including securitization transactions, and any continuing exposure to the risks related to transferred financial assets. SFAS 166 eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. SFAS 166 is effective on a prospective basis for the annual period beginning after November 15, 2009 and interim and annual periods thereafter. The Company does not expect that the provisions of SFAS 166 will have a material effect on its results of operations, financial position or liquidity.

In June 2009, the FASB issued revised guidance on the accounting for variable interest entities. The revised guidance, which was issued as SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* has not yet been adopted into Codification. The revised guidance requires an analysis of whether a company has: (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance, and (2) the obligation to absorb the losses that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. The revised guidance also requires an entity to be re-evaluated as a variable interest entity when the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights to direct the activities that most significantly impact the entity's economic performance. The revised guidance requires additional disclosures about a company's involvement in variable interest entities and an ongoing assessment of whether a company is the primary beneficiary. The revised guidance is effective on a prospective basis for the annual period beginning after November 15, 2009 and interim and annual periods thereafter. The Company does not expect that the revised guidance will have a material effect on its results of operations, financial position or liquidity.

In May 2009, the FASB issued new guidance for accounting for subsequent events. The new guidance, which is now part of ASC 855, *Subsequent Events*, is consistent with existing auditing standards in defining subsequent events as events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued, but it also requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The new guidance defines two types of subsequent events: "recognized subsequent events" and "non-recognized subsequent events." Recognized subsequent events provide additional evidence about conditions that existed at the balance sheet date and must be reflected in the company's financial statements. Non-recognized subsequent events provide evidence about conditions that arose after the balance sheet date and are not reflected in the financial statements of a company. Certain non-recognized subsequent events may require disclosure to prevent the financial statements from being misleading. The new guidance was effective on a prospective basis for interim or annual periods ending after June 15, 2009. The adoption of the new guidance on April 1, 2009 had no effect on the Company's results of operations, financial position or liquidity.

In April 2009, the FASB issued new guidance for the accounting for other-than-temporary impairments. Under the new guidance, which is now part of ASC 320, *Investments — Debt and Equity Securities*, an other than temporary impairment is recognized when an entity has the intent to sell a debt security or when it is more likely than not an entity will be required to sell the debt security before its anticipated recovery. Additionally, the new guidance changes the presentation and amount of other-than-temporary losses recognized in the income statement for instances when the Company determines that there is a credit loss on a debt security

2. Significant Accounting Policies – (continued)

but it is more likely than not that the entity will not be required to sell the security prior to the anticipated recovery of its remaining cost basis. For these debt securities, the amount representing the credit loss will be reported as an impairment loss in the Consolidated Statement of Income and the amount related to all other factors will be reported in accumulated other comprehensive income. The new guidance also requires the presentation of other-than-temporary impairments separately from realized gains and losses on the face of the income statement.

In addition to the changes in measurement and presentation, the new guidance is intended to enhance the existing disclosure requirements for other-than-temporary impairments and requires all disclosures related to other-than-temporary impairments in both interim and annual periods. The new guidance was effective for interim periods ended after June 15, 2009, with early adoption permitted for periods ended after March 15, 2009. The Company adopted the new guidance on April 1, 2009. The adoption did not have a material impact on its results of operations, financial position, or liquidity.

In April 2009, the FASB issued new guidance for determining when a transaction is not orderly and for estimating fair value when there has been a significant decrease in the volume and level of activity for an asset or liability. The new guidance, which is now part of ASC 820, *Fair Value Measurements and Disclosures*, requires the disclosure of the inputs and valuation techniques used, as well as any changes in valuation techniques and inputs used during the period, to measure fair value in interim and annual periods. The provisions of the new guidance were effective for interim periods ended after June 15, 2009, with early adoption permitted for periods ended after March 15, 2009. The Company adopted the new provisions on April 1, 2009 and the adoption did not have a material effect on its results of operations, financial position or liquidity.

In August 2009, the FASB issued updated guidance for the accounting for the fair value measurement of liabilities. The guidance provides clarification that in certain circumstances, in which a quoted price in an active market for the identical liability is not available, a company is required to measure fair value using one or more of the following valuation techniques: the quoted price of the identical liability when traded as an asset, the quoted prices for similar liabilities or similar liabilities when traded as assets, and/or another valuation technique that is consistent with the principles of fair value measurements. The guidance also clarifies that a company is not required to include an adjustment for restrictions that prevent the transfer of the liability and, if an adjustment is applied to the quoted price used in a valuation technique, the result is a Level 2 or 3 fair value measurement. The guidance was effective for interim and annual periods beginning after August 27, 2009. The adoption of the guidance on October 1, 2009 did not have any effect on the Company's results of operations, financial position or liquidity.

In April 2009, the FASB issued new guidance related to the disclosure of the fair value of financial instruments. The new guidance, which is now part of ASC 820, *Fair Value Measurements and Disclosures*, requires disclosure about fair value of financial instruments in interim and annual financial statements. The new guidance was effective for periods ended after June 15, 2009, with early adoption permitted for periods ended after March 15, 2009. The Company adopted the new provisions on April 1, 2009 and the adoption did not have a material effect on its results of operations, financial position or liquidity.

In June 2008, the FASB issued new guidance on determining whether instruments granted in share-based payment transactions are participating securities. The new guidance, which is now part of ASC 260, *Earnings per Share,* clarifies that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method. This new guidance was effective for financial statements issued for fiscal years which began after December 15, 2008 and required all presented prior-period earnings per share data to be adjusted retrospectively. The new guidance did not have an impact on the Company's results of operations, financial position or liquidity.

2. Significant Accounting Policies – (continued)

In April 2008, the FASB issued revised guidance on determining the useful life of intangible assets. The revised guidance, which is now part of ASC 350, Intangibles — Goodwill and Other, amends the factors that should be considered in developing assumptions about renewals or extensions used in estimating the useful life of a recognized intangible. The revised guidance was effective for financial statements issued for fiscal years which began after December 15, 2008. The measurement provisions of the revised guidance relate only to intangible assets of the Company acquired after the effective date. The revised guidance did not have a material impact on the Company's consolidated results of operations, financial position or liquidity.

In March 2008, the FASB issued new guidance on the disclosure of derivative instruments and hedging activities. The new guidance, which is now part of ASC 815, *Derivatives and Hedging Activities*, requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. The new guidance was effective for financial statements issued for fiscal years and interim periods which began after November 15, 2008. The new guidance did not have a material impact on the Company's consolidated results of operations, financial position or liquidity.

In December 2007, the FASB issued revised guidance for the accounting for business combinations. The revised guidance, which is now part of ASC 805, *Business Combinations*, requires the fair value measurement of assets acquired, liabilities assumed and any non-controlling interest in the acquiree, at the acquisition date with limited exceptions. Previously, a cost allocation approach was used to allocate the cost of the acquisition based on the estimated fair value of the individual assets acquired and liabilities assumed. The cost allocation approach treated acquisition-related costs and restructuring costs that the acquirer expected to incur as a liability on the acquisition date, as part of the cost of the acquisition. Under the revised guidance, those costs are recognized in the consolidated statement of income separately from the business combination. In addition, the revised guidance includes recognition, classification and measurement guidance for assets and liabilities related to insurance and reinsurance contracts acquired in a business combination. The revised guidance applied to business combinations for acquisitions occurring on or after January 1, 2009.

In December 2007, the FASB issued new guidance for the accounting for non-controlling interests. The new guidance, which is now part of ASC 810, *Consolidation*, establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. In addition, it clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated statements. The new guidance became effective on a prospective basis beginning January 1, 2009, except for presentation and disclosure requirements which are applied on a retrospective basis for all periods presented. The new guidance did not have a material impact on the Company's consolidated results of operations, financial position or liquidity.

3. Investments

(a) Available-for-Sale Securities

The amortized cost, estimated fair value and gross unrealized appreciation and depreciation of equity securities are presented in the tables below:

(Amounts in Thousands) As of December 31, 2009	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 5,996	$ —	$ (886)	$ 5,110
Common stock	54,642	4,391	(13,788)	45,245
U.S. treasury securities	124,566	383	(806)	124,143
U.S. government agencies	47,030	524	(130)	47,424
Municipal bonds	26,580	931	(243)	27,268
Corporate bonds:				
Finance	338,746	9,560	(24,384)	323,922
Industrial	47,986	2,770	(9)	50,747
Utilities	13,866	977	(326)	14,517
Commercial mortgage backed securities	3,295	64	—	3,359
Residential mortgage backed securities:				
Agency backed	467,555	14,600	(424)	481,731
Non-agency backed	7,808	835	(11)	8,632
Asset-backed securities	3,482	198	(61)	3,619
	$1,141,552	$35,233	$(41,068)	$1,135,717

(Amounts in Thousands) As of December 31, 2008	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 6,765	$ —	$ (1,450)	$ 5,315
Common stock	77,325	189	(54,001)	23,513
U.S. treasury securities	13,892	1,820	—	15,712
U.S. government agencies	18,986	1,332	—	20,318
Municipal bonds	45,773	367	(932)	45,208
Corporate bonds:				
Finance	360,912	900	(65,006)	296,806
Industrial	85,549	486	(17,491)	68,544
Utilities	8,876	110	(434)	8,552
Commercial mortgage backed securities	3,773	—	(383)	3,390
Residential mortgage backed securities:				
Agency backed	445,513	9,160	(7,894)	446,779
Non-agency backed	—	—	—	—
Asset-backed securities	5,505	—	(438)	5,067
	$1,072,869	$14,364	$(148,029)	$939,204

Proceeds from the sale of investments in available-for-sale securities during the years ended December 31, 2009, 2008, and 2007 were approximately $421,355, $427,529 and $711,984, respectively.

3. Investments – (continued)

A summary of the Company's available-for-sale fixed securities as of December 31, 2009, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in Thousands) Available-for-Sale Debt Securities:	Amortized Cost	Fair Value
Due in one year or less	$ 15,776	$ 15,888
Due after one through five years	129,176	125,193
Due after five through ten years	347,030	341,002
Due after ten years	102,377	101,536
Mortgage backed securities	486,555	501,743
Total fixed maturities	$1,080,914	$1,085,362

(b) Held-to-Maturity Securities

During the year ended December 31, 2009, the Company disposed of a portion of its fixed maturities classified as held to maturity. As such, the Company assessed the appropriateness of its remaining fixed maturity portfolio classified as held to maturity. The Company determined that all remaining fixed maturities should be classified as available for sale under the provisions of FASB ASC 320-10 (Prior authoritative literature: SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*). The effect of this one time reclassification increased the carrying value of the fixed maturities by approximately $1,000.

The amortized cost, estimated fair value and gross unrealized appreciation and depreciation of fixed maturity investments as of December 31, 2008 are presented in the table below:

(Amounts in Thousands)	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	$ 2,139	$ 143	$ —	$ 2,282
U.S. government agencies	1,116	181	—	1,297
Residential mortgage backed securities – agency backed	45,626	1,183	(146)	46,663
	$48,881	$1,507	$(146)	$50,242

Proceeds from sale of investments in held-to-maturity securities during the years ended December 31, 2008 and 2007 were $113,020 and $265,728, respectively.

3. Investments – (continued)

(c) Investment Income

Net investment income for the years ended December 31, 2009, 2008 and 2007 was derived from the following sources:

(Amounts in Thousands)	2009	2008	2007
Fixed maturity securities	$47,675	$48,919	$37,989
Equity securities	2,084	934	1,691
Cash and short term investments	4,173	16,302	10,369
Loss on other investments	—	—	(523)
Loss on equity investment in Warrantech	(822)	(991)	(749)
Interest on note receivable – related party	2,967	3,170	2,796
	56,077	66,456	51,573
Less: Investment expenses and interest expense on securities sold under agreement to repurchase	(1,612)	(8,858)	(686)
	$54,465	$59,476	$50,887

(d) Realized Gains and Losses

The tables below indicate the gross realized gains and losses for the years ended December 31, 2009, 2008 and 2007.

(Amounts in Thousands) Year Ended December 31, 2009	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 6,421	$ (5,536)	$ 885
Equity securities	5,617	(10,734)	(5,117)
Derivatives	—	(4,569)	(4,569)
Write-down of fixed maturity securities	—	(4,429)	(4,429)
Write-down of equity securities	—	(20,349)	(20,349)
	$12,038	$(45,617)	$(33,579)

(Amounts in Thousands) Year Ended December 31, 2008	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ —	$(10,585)	$(10,585)
Equity securities	2,873	(2,034)	839
Derivatives	533	(2,599)	(2,066)
Write-down of fixed maturity securities	—	(31,389)	(31,389)
Write-down of equity securities	—	(21,384)	(21,384)
	$3,406	$(67,991)	$(64,585)

(Amounts in Thousands) Year Ended December 31, 2007	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 6,132	$ (1,450)	$ 4,682
Equity securities	14,406	(4,790)	9,616
Derivatives	1,462	(2,749)	(1,287)
Write-down of equity securities	$ —	$ (8,367)	$(8,367)
	$22,000	$(17,356)	$ 4,644

3. Investments – (continued)

(e) Unrealized Gains and Losses

Net unrealized gain (loss) on available-for-sale securities were as follows:

(Amounts in Thousands) Year Ended December 31,	2009	2008	2007
Fixed maturity securities	$ 4,444	$ (78,403)	$(18,383)
Equity securities	(10,283)	(55,262)	(27,919)
Total net unrealized gain (loss)	(5,839)	(133,665)	(46,302)
Deferred income tax benefit (expense)	2,044	46,783	16,206
Net unrealized losses, net of deferred income tax	(3,795)	(86,882)	(30,096)
(Increase) decrease in net unrealized losses, net of deferred income tax	$ 83,087	$ (56,786)	$(33,765)

Net unrealized losses on held-to-maturity fixed maturity securities were as follows:

(Amounts in Thousands) Year Ended December 31,	2009	2008	2007
Net unrealized gains (losses)	$—	$1,361	$ 760
Increase (decrease) in net unrealized gains (losses)	—	601	3,261

(f) Other Than Temporary Impairment

OTTI charges of our fixed-maturities and equity securities for the years ended December 31, 2009, 2008 and 2007 are presented in the table below:

(Amounts in Thousands) Year Ended December 31,	2009	2008	2007
Equity securities recognized in earnings	$20,639	$21,384	$8,367
Fixed maturity securities recognized in earnings	4,139	31,389	—
	$24,778	$52,773	$8,367

3. Investments – (continued)

The tables below summarize the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized loss position as of December 31, 2009 and 2008:

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) December 31, 2009	**Fair Market Value**	**Unrealized Losses**	**No. of Positions Held**	**Fair Market Value**	**Unrealized Losses**	**No. of Positions Held**	**Fair Market Value**	**Unrealized Losses**
Common and preferred stock	$ 8,540	$(2,934)	13	$ 23,295	$(11,740)	106	$ 31,835	$(14,674)
U.S. treasury securities	110,393	(748)	26	802	(58)	1	111,195	(806)
U.S. government agencies	40,337	(130)	7	—	—	—	40,337	(130)
Municipal bonds	9,538	(239)	1	347	(4)	1	9,885	(243)
Corporate bonds:								
Finance	33,777	(572)	16	165,773	(23,812)	36	199,550	(24,384)
Industrial	4,986	(5)	1	496	(4)	1	5,482	(9)
Utilities	1,370	(42)	1	1,801	(284)	2	3,171	(326)
Residential mortgage backed securities:								
Agency backed	22,935	(107)	2	105,346	(317)	9	128,281	(424)
Non-agency backed	—	—	—	22	(11)	1	22	(11)
Asset-backed securities	—	—	—	231	(61)	1	231	(61)
Total temporarily impaired	$231,876	$(4,777)	67	$298,113	$(36,291)	158	$529,989	$(41,068)

There are 225 securities at December 31, 2009 that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company's cost basis.

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) Available-for-Sale December 31, 2008	**Fair Market Value**	**Unrealized Losses**	**No. of Positions Held**	**Fair Market Value**	**Unrealized Losses**	**No. of Positions Held**	**Fair Market Value**	**Unrealized Losses**
Common and preferred stock	$ 10,189	$(11,175)	148	$ 16,437	$ (44,276)	225	$ 26,626	$ (55,451)
U.S. treasury securities	—	—	—	—	—	—	—	—
Municipal bonds	15,171	(932)	29	—	—	—	15,171	(932)
Corporate bonds:								
Finance	77,675	(11,420)	45	191,012	(53,586)	66	268,687	(65,006)
Industrial	31,545	(6,839)	31	23,780	(10,652)	17	55,325	(17,491)
Utilities	3,945	(97)	4	1,754	(337)	2	5,699	(434)
Commercial mortgage backed securities	3,390	(383)		—	—	—	3,390	(383)
Residential mortgage backed securities:								
Agency backed	103,732	(4,454)	7	97,095	(3,440)	8	200,827	(7,894)
Non-agency backed	—	—	—	—	—	—	—	—
Asset-backed securities	5,045	(422)	8	22	(16)	1	5,067	(438)
Total temporarily impaired	$250,692	$(35,722)	278	$330,100	$(112,307)	320	$580,792	$(148,029)

3. Investments – (continued)

There are 598 securities at December 31, 2008 that account for the gross unrealized loss for available-for-sale securities, none of which is deemed by the Company to be an OTTI. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company's cost basis.

(Amounts in Thousands) Held-to-Maturity December 31, 2008	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Residential mortgage agency backed	$501	$(2)	1	$4,931	$(144)	20	$5,432	$(146)
Total temporarily impaired	$501	$(2)	1	$4,931	$(144)	20	$5,432	$(146)

There are 21 securities at December 31, 2008 that account for the gross unrealized loss for held-to-maturity securities, none of which is deemed by the Company to be an OTTI. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company's cost basis.

(g) Derivatives

The following table presents the notional amounts by remaining maturity of the Company's Interest Rate Swaps and Credit Default Swaps as of December 31, 2009:

(Amounts in Thousands)	Remaining Life of Notional Amount(1)				
	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years	Total
Interest rate swaps	$—	$20,000	$—	$—	$20,000
Credit default swaps	—	12,000	—	—	12,000
	$—	$32,000	$—	$—	$32,000

(1) Notional amount is not representative of either market risk or credit risk and is not recorded in the consolidated balance sheet.

The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. The Company records changes in valuation on its derivative positions not designated as a hedge as a component of net realized gains and losses. The Company records changes in valuation on its hedge positions as a component of other comprehensive income. As of December 31, 2009, the Company did not have any derivatives designated as a hedge. Additionally, the Company records changes in valuation on its interest rate swap related to its term loan (See ''Note 11. Debt'') as a component of interest expense.

(h) Other

Securities sold but not yet purchased, represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value and as of December 31, 2009 and 2008 was $15,360 and $20,690 for corporate bonds, respectively, and $955 and $1,918 for equity securities, respectively. These transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, may exceed the amount reflected at

3. Investments – (continued)

December 31, 2009. Substantially all securities owned are pledged to the clearing broker to sell or repledge the securities to others subject to certain limitations.

During 2009, the Company entered into repurchase agreements. The agreements are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities, that it invests or holds in short term or fixed income securities. As of December 31, 2009 there were $172,774 principal amount outstanding at interest rates between 0.25% and 0.3%. Interest expense associated with these repurchase agreements for the year ended 2009 was $1,612 of which $23 was accrued as of December 31, 2009. The Company has $176,494 of collateral pledged in support of these agreements. As of December 31, 2008 there were $284,492 principal amount outstanding at interest rates between 2.5% and 3.0%. Interest expense associated with these repurchase agreements for the year ended 2008 was $8,835 of which $692 was accrued as of December 31, 2008. The Company has $293,444 of collateral pledged in support of these agreements.

At December 31, 2009 and 2008, the Company through its domestic insurance subsidiary currently has assets with a fair value of $32,723 and $31,962, respectively on deposit with various state departments of insurance. These deposits are held for benefits of insurance company policyholders.

4. Fair Value of Financial Instruments

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of December 31, 2009 and 2008:

(Amounts in Thousands)	Total	Level 1	Level 2	Level 3
As of December 31, 2009				
Assets:				
Fixed securities	$1,085,362	$124,123	$961,219	$ —
Equity securities	50,355	50,355	—	—
Other investments	14,034	—	—	14,034
	$1,148,751	$174,498	$961,219	$14,034
Liabilities:				
Securities sold but not yet purchased, market	$ 16,315	$ 955	$ 15,360	$ —
Securities sold under agreements to repurchase, at contract value	172,774	—	172,774	—
Derivatives	1,893	—	—	1,893
	$ 190,982	$ 955	$188,134	$ 1,893

4. Fair Value of Financial Instruments – (continued)

(Amounts in Thousands)	Total	Level 1	Level 2	Level 3
As of December 31, 2008				
Assets:				
Held-to-maturity fixed securities	$ 50,242	$ 2,282	$ 47,960	$ —
Available-for-sale fixed securities	910,376	15,712	886,769	7,895
Equity securities	28,828	28,828	—	—
Other investments	13,457	—	—	13,457
	$1,002,903	$46,822	$934,729	$21,352
Liabilities:				
Securities sold but not yet purchased, market	$ 22,608	$ 1,918	$ 20,690	$ —
Securities sold under agreements to repurchase, at contract value	284,492	—	284,492	—
Derivatives	1,439	—	—	1,439
	$ 308,539	$ 1,918	$305,182	$ 1,439

The Company had transfers between levels during 2009 and 2008 of $0 and $7,895, respectively.

The following tables provide a summary of changes in fair value of the Company's Level 3 financial assets and financial liabilities for the years ended December 31, 2009 and 2008:

(Amounts in Thousands)	Assets	Liabilities	Total
Year ended December 31, 2009:			
Beginning balance as of January 1, 2009	$21,352	$(1,439)	$19,913
Total net losses included in:			
Net income	(39)	(4,569)	(4,608)
Other comprehensive loss	2,544	—	2,544
Purchases and issuances	165	—	165
Sales and settlements	(9,988)	4,115	(5,873)
Net transfers into (out of) Level 3	—	—	—
Ending balance as of December 31, 2009	$14,034	$(1,893)	$12,141

(Amounts in Thousands)	Assets	Liabilities	Total
Year ended December 31, 2008:			
Beginning balance as of January 1, 2008	$28,035	$(4,101)	$23,934
Total net losses included in:			
Net income	—	2,662	2,662
Other comprehensive loss	(6,262)	—	(6,262)
Purchases and issuances	488	—	488
Sales and settlements	(8,804)	—	(8,804)
Net transfers into (out of) Level 3	7,895	—	7,895
Ending balance as of December 31, 2008	$21,352	$(1,439)	$19,913

4. Fair Value of Financial Instruments – (continued)

The Company uses the following methods and assumptions in estimating its fair value disclosures for financial instruments:

- *Equity and Fixed Income Investments:* Fair value disclosures for these investments are disclosed above elsewhere in this note. The carrying values of cash, short term investments and investment income accrued approximate their fair values;
- *Premiums Receivable:* The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values due to the short term nature of the asset;
- *Subordinated Debentures and Debt:* The carrying values reported in the accompanying balance sheets for these financial instruments approximate fair value. Fair value was estimated using projected cash flows, discounted at rates currently being offered for similar notes.

5. Acquisitions

CyberComp

In September 2009, the Company acquired from subsidiaries of Swiss Re America Holding Corp. (''Swiss Re'') access to the distribution network and renewal rights to CyberComp (''CyberComp''), a Swiss Re web-based platform providing workers' compensation insurance to the small to medium-sized employer market. CyberComp operates in 26 states and distributes policies through a network of 13 regional wholesale agencies and over 600 retail agents. The purchase price is equal to a percentage of gross written premium through the third anniversary of the closing of the transaction. Upon closing, the Company made an initial payment to Swiss Re in the amount of $3,000 which represents an advance on the purchase price and the minimum amount payable pursuant to the purchase agreement. In accordance with FASB ASC 805, the Company recorded a purchase price of $6,300 which consisted of $2,800 of renewal rights, $2,300 of distribution networks, $700 of trademarks and $500 of goodwill as part of the Small Commercial Business segment. The intangible assets were determined to have useful lives of between two years and 15 years. The Company produced approximately $17,700 of gross written premium in 2009 as a result of this transaction.

ACHL

During the three months ended March 31, 2009, the Company, through a subsidiary, acquired all the issued and outstanding stock of Imagine Captive Holdings Limited (''ICHL''), a Luxembourg holding company, which owned all of the issued and outstanding stock of Imagine Re Beta SA, Imagine Re (Luxembourg) 2007 SA and Imagine Re SA (collectively, the ''Captives''), each of which is a Luxembourg domiciled captive insurance company, from Imagine Finance SARL (''SARL''). ICHL subsequently changed its name to AmTrust Captive Holdings Limited (''ACHL'') and the Captives changed their names to AmTrust Re Beta, AmTrust Re 2007 (Luxembourg) and AmTrust Re, respectively. The purchase price of ACHL was $.02 million which represented the capital of ACHL. In accordance with FASB ASC 805-10, the Company recorded approximately $12,500 of cash, $66,500 of receivables and $79,000 of loss reserves. ACHL is included in the Company's Specialty Risk and Extended Warranty segment.

Additionally, the Captives had previously entered into a stop loss agreement with Imagine Insurance Company Limited (''Imagine'') by which Imagine agreed to cede certain losses to the Captives. Concurrently, with the Company's purchase of ACHL, the Company, through AII, entered into a novation agreement by which AII assumed all of Imagine's rights and obligations under the stop loss agreement.

5. Acquisitions – (continued)

In October 2009, ACHL acquired all the issued and outstanding stock of Watt Re, a Luxembourg domiciled captive insurance company, from CREOS LUXEMBOURG S.A. (formerly CEGEDEL S.A.) and ENOVOUS Luxembourg S.A. (formerly CEGEDEL PARTICIPATIONS S.A.). Watt Re subsequently changed its name to AmTrust Re Gamma. The purchase price of Watt Re was approximately $30,200. The Company recorded approximately $34,500 of cash, intangible assets of $5,500 and a deferred tax liability of approximately $9,800. The Company assigned a life of three years to the intangible assets.

In December 2009, ACHL acquired all the issued and outstanding stock of Group 4 Falck Reinsurance S.A. a Luxembourg domiciled captive insurance company, from Group 4 Securitas (International) B.V. Group 4 Falk Reinsurance S.A. subsequently changed its name to AmTrust Re Omega. The purchase price of Group 4 Falck Reinsurance S.A. was approximately $22,800. The Company recorded approximately $25,100 of cash, intangible assets of $2,200 and a deferred tax liability of $4,500. The Company assigned a life of three years to the intangible assets.

The aforementioned ACHL transactions allow the Company to obtain the benefit of the Captives' capital and utilization of their existing and future loss reserves through a series of reinsurance arrangements with a subsidiary of the Company.

Unitrin — Commercial Package Business

In June 2008, the Company completed a stock and asset purchase agreement with a subsidiary of Unitrin, Inc. whereby the Company acquired Unitrin, Inc.'s commercial package business (''UBI'') including its distribution networks, renewal rights and four insurance companies through which Unitrin wrote its UBI business. The acquired insurance companies are located in Kansas, Texas and Wisconsin and were, at the acquisition date, collectively licensed in 34 states. Consideration paid for the transaction was approximately $88,477 and consisted of cash of $61,146, a note payable of $26,845, assumed liabilities of $264 and direct transaction costs of $222. The Company recorded $35,076 of goodwill and $15,020 of intangible assets related to distribution networks and licenses. The distribution networks have a life of ten years and the licenses have an indefinite live. The note is required to be paid in full immediately, under certain circumstances, including default of a payment or change of control of the Company. The results of operations have been included in the Company's consolidated financial statements since the acquisition date. Additionally, at the close of the acquisition, the Company assumed approximately $78,200 of unearned premium from Unitrin affiliates in connection with the acquisition and then ceded the entire amount to Maiden Insurance pursuant to the Maiden Reinsurance Agreement (See Note 12. ''Related Party Transactions'').

5. Acquisitions – (continued)

In accordance with FASB ASC 805, the cost of the acquisition was allocated to the assets acquired and liabilities assumed based on the fair values as of the close of acquisition, with the amounts exceeding the fair value recorded as goodwill. The Company finalized its purchase price allocation during the fourth quarter of 2008. As a result of finalizing the allocation, the Company reduced the value of its intangibles recorded preliminary at the time of acquisition by approximately $26,000, which resulted in a positive adjustment to goodwill by the same amount. The finalized purchase price allocation as of the date of acquisition is as follows:

(Amounts in Thousands)	
Assets	
Investments	$ 30,673
Cash and cash equivalents	5,263
Premium receivable	44,972
Prepaid reinsurance premium	62,829
Reinsurance recoverable	28
Property and equipment	1,120
Goodwill	35,076
Intangible assets	15,020
Other assets	2,478
Total assets	$197,459
Liabilities	
Reinsurance payable on paid losses	$ 45,708
Unearned premiums	62,910
Accrued expenses and other current liabilities	364
Total liabilities	$108,982
Total purchase price	$ 88,477

Associated

In September 2007, the Company acquired all the issued and outstanding stock of Associated Industries Insurance Services, Inc. (''AIIS'') and Associated Industries Insurance Company's (''AIIC'') (collectively ''Associated''), a Florida-based workers' compensation managing general agency, and its wholly-owned subsidiary, AIIC, a Florida workers' compensation insurer, also licensed in Alabama, Georgia and Mississippi for consideration of approximately $38,854. AIIS subsequently changed its name to AmTrust North America of Florida (''ANAF''). The $38,854 consisted of approximately $33,930 of cash, $599 of direct acquisition costs and $4,325 for accrued liabilities. Additionally, the Company recorded $3,720 of goodwill and $10,210 of intangible assets related to trademarks, licenses, distribution networks and non-compete agreements. The Company determined that the trademarks and licenses have indefinite lives and the remaining intangible assets are being amortized over a period of one to 15 years. The results of operations have been included since the acquisition date and are included in Small Commercial Business segment. During 2009, the Company adjusted goodwill by $(2,621) related to a deferred tax adjustment that arose from the acquisition date.

IGI

In April 2007, the Company, through a subsidiary, acquired all the issued and outstanding stock of IGI Group, Ltd. (''IGI''), a United Kingdom specialty issuer. The acquisition should continue to enable the Company to expand its presence in the United Kingdom through IGI's distribution network and to leverage IGI's experienced administration and claims handling capabilities. The results of operations have been included since the acquisition date and are included in Specialty Risk and Extended Warranty segment. The Company recorded a purchase price of approximately $15,200, which included cash of $14,900 and approximately $300 of direct acquisition costs. The allocation of the purchase price resulted in goodwill and

5. Acquisitions – (continued)

intangible assets of approximately $3,500 and $7,400, respectively The Company recorded intangibles primarily for trademarks and distribution networks. The trademark was determined to have an indefinite live and the remaining intangible asset lives were determined to have useful lives ranging between 5 and 20 years.

6. Intangible Assets and Goodwill

The composition of the intangible assets is summarized as follows:

(Amounts in Thousands) As of December 31, 2009	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$ 53,156	—	$ 53,156	Indefinite Life
Renewal rights	4,180	1,348	2,832	7 years
Covenant not to compete	1,686	1,274	412	1 – 9 years
Distribution networks	37,217	7,305	29,912	10 – 20 years
Software	2,302	1,985	317	3 – 20 years
Customer relationships	5,163	2,440	2,723	5 – 10 years
Trademarks	700	88	612	2 years
Trademarks	3,428	—	3,428	Indefinite Life
Licenses	408	10	398	50 years
Licenses	14,340	—	14,340	Indefinite Life
Contractual use rights	7,698	—	7,698	3 years
Total	$130,278	$14,450	$115,828	12 years average

(Amounts in Thousands) As of December 31, 2008	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$ 49,794	—	$ 49,794	Indefinite Life
Renewal rights	1,880	998	882	7 years
Covenant not to compete	1,686	974	712	1 – 9 years
Distribution networks	34,417	4,967	29,450	10 – 20 years
Software	2,269	1,962	307	3 – 20 years
Customer relationships	4,712	1,526	3,186	5 – 10 years
Trademarks	3,346	—	3,346	Indefinite Life
Licenses	408	—	408	50 years
Licenses	14,340	—	14,340	Indefinite Life
Total	$112,852	$10,427	$102,425	12 years average

6. Intangible Assets and Goodwill – (continued)

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2009 and 2008 are as follows:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Middle Market	Total
Balance as of January 1, 2009	$44,440	$3,847	$1,507	$49,794
Goodwill additions	997	594	3,813	5,404
Deferred tax adjustment	(2,621)	—	—	(2,621)
Foreign currency translation	—	579	—	579
Balance as of December 31, 2009	$42,816	$5,020	$5,320	$53,156

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Middle Market	Total
Balance as of January 1, 2008	$ 7,013	$3,536	$ —	$10,549
Goodwill additions	37,427	1,241	1,507	40,175
Foreign currency translation	—	(930)	—	(930)
Balance as of December 31, 2008	$44,440	$3,847	$1,507	$49,794

Goodwill acquired during the year resulted from acquisitions or resolution of contingent consideration matters.

Goodwill and intangible assets are subject to annual impairment testing. No impairment was recorded during the years ended December 31, 2009, 2008 and 2007. Finite lived intangible assets are amortized under the straight-line method, except for renewal rights, for which the Company amortizes them using a 125% accelerated method and contractual use rights which are amortized based on actual use. Amortization expense for 2009, 2008 and 2007 was $4,023, $4,106 and $2,791, respectively. The estimated aggregate amortization expense for each of the next five years is:

(Amounts in Thousands)	
2010	$7,150
2011	6,999
2012	6,681
2013	3,843
2014	2,744

7. Property and Equipment, Net

(Amounts in Thousands) As of December 31,	2009	2008
Land	$ 881	$ 881
Building	6,931	6,664
Internal use software	9,828	6,730
Computer equipment	7,873	6,224
Other equipment	3,044	2,568
Leasehold improvements	919	890
	29,476	23,957
Less: Accumulated depreciation and amortization	(13,618)	(8,850)
	$ 15,858	$15,107

8. Accrued Expenses and Other Liabilities

(Amounts in Thousands) As of December 31,	2009	2008
Premium taxes, assessments and surcharges payable	$ 66,826	$ 62,265
Securities owned not yet paid	29,968	—
Commissions payable	24,512	30,658
Other accrued expenses	17,895	17,815
Deferred warranty revenue	11,472	1,687
Accounts payable	6,974	12,413
Due to sellers	5,228	4,289
Premiums collected in advance	5,169	4,663
Claims payable	4,812	2,962
Accrued interest	3,907	4,550
Dividends payable	3,559	3,002
	$180,322	$144,304

9. Liability for Unpaid Loss and LAE

The following table provides a reconciliation of the beginning and ending balances for unpaid losses and LAE, reported in the accompanying consolidated balance sheets as of December 31, 2009 and 2008:

(Amounts in Thousands)	2009	2008	2007
Unpaid losses and LAE, gross of related reinsurance recoverables at beginning of year	$1,014,059	$ 775,392	$ 295,805
Less: Reinsurance recoverables at beginning of year	504,404	258,028	44,127
Net balance, beginning of year	509,655	517,364	251,678
Incurred related to:			
Current year	332,598	238,847	274,897
Prior year	(4,827)	(544)	2,089
Total incurred losses during the year	327,771	238,303	276,986
Paid losses and LAE related to:			
Current year	(203,210)	(144,272)	(120,065)
Prior year	(109,872)	(112,893)	(59,990)
Total payments for losses and LAE	(313,082)	(257,165)	(180,055)
Commuted loss reserves	4,612	—	—
Net balance, December 31	528,956	498,502	348,609
Acquired outstanding loss and loss adjustment reserve	—	15,173	168,755
Effect of foreign exchange rates	1,114	(4,020)	—
Plus reinsurance recoverables at end of year	561,874	504,404	258,028
Unpaid losses and LAE, gross of related reinsurance recoverables at end of year	$1,091,944	$1,014,059	$ 775,392

In 2009 and 2008, the Company's liabilities for unpaid losses and LAE attributable to prior years decreased by $4,308 and $544, respectively, as result of favorable development in both the Small Commercial Business segment and Specialty Risk and Extended Warranty segment partially offset by unfavorable development in our Specialty Middle Market Business segment as well as the Company's involuntary participation in NCCI pools. In 2007, the Company's liabilities for unpaid losses and LAE attributable to prior years increased by $2,089 as result of unfavorable loss development, in its small business worker's compensation segment due to its involuntary participation in NCCI pools. In setting its reserves, the Company utilizes a combination of Company loss development factors and industry-wide loss development factors. In the event that the Company's losses develop more favorably than the industry, as a whole, the Company's liabilities for unpaid losses and LAE should decrease. Management believes that its use of both its historical experience and industry-wide loss development factors provide a reasonable basis for estimating future losses. As the Company has written more business and develop more credible data, the Company has assigned more weight to its historical experience than to industry-wide results. In either case, future events beyond the control of management, such as changes in law, judicial interpretations of law, and inflation may favorably or unfavorably impact the ultimate settlement of the Company's loss and LAE.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated changes in claim costs due to inflation are considered in estimating the ultimate claim costs, the increase in average severity of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and are modified if necessary.

10. Reinsurance

The Company utilizes reinsurance agreements to reduce its exposure to large claims and catastrophic loss occurrences and to increase its capacity to write profitable business. These agreements provide for recovery from reinsurers of a portion of losses and LAE under certain circumstances without relieving the insurer of its obligation to the policyholder. Losses and LAE incurred and premiums earned are reflected after deduction for reinsurance. In the event reinsurers are unable to meet their obligations under reinsurance agreements, the Company would not be able to realize the full value of the reinsurance recoverable balances. The Company periodically evaluates the financial condition of its reinsurers in order to minimize its exposure to significant losses from reinsurer insolvencies. Reinsurance does not discharge or diminish the primary liability of the Company; however, it does permit recovery of losses on such risks from the reinsurers.

The Company has coverage for its workers' compensation line of business under excess of loss reinsurance agreements. The agreements cover losses in excess of $500 through December 31, 2004, $600 effective January 1, 2005, $1,000 effective July 1, 2006 and $1,000 plus 55% of $9,000 in excess of $1,000 effective July 1, 2009 per occurrence up to a maximum $130,000 ($50,000 prior to December 1, 2003) in losses per occurrence. For policies effective January 1, 2008 through July 1, 2009, for losses occurring on or before July1, 2009, the Company retains the first $1,000 per occurrence. For losses on such policies that occur on or after July 1, 2009, the Company retains the first $1,000 per occurrence as well as 55% of the next $9,000 per occurrence. We have obtained reinsurance for this line of business with higher limits as our exposures have increased. As the scale of our workers' compensation business has increased, we have also increased the amount of risk we retain. Our reinsurance for worker's compensation losses caused by acts of terrorism is more limited than our reinsurance for other types of workers' compensation losses; our workers compensation treaties currently provide coverage for $110,000 in the aggregate in excess of $20,000 in the aggregate, per contract year.

The Company has coverage for its casualty lines of business under excess of loss reinsurance agreements. The agreement covers losses in excess of $2,000 per occurrence (in certain cases the retention can rise to $2,500) up to a maximum $30,000. The Company purchases quota share reinsurance for its umbrella business and also purchases various pro-rata and excess reinsurance relating to specific insurance programs and/or specialty lines of business.

The Company has coverage for its property lines of business under an excess of loss reinsurance agreements. The agreement covers losses in excess of $2,000 per location up to a maximum $20,000. In addition the Company has a property catastrophe excess of loss agreement. The current agreement covers losses in excess of $5,000 per occurrence up to a maximum $65,000.

During 2008 and 2009, TIC acted as servicing carrier on behalf of the Arkansas, Illinois, Indiana, Georgia and Virginia Workers' Compensation Assigned Risk Plans. In 2007, TIC acted as servicing carrier on behalf of both the Georgia and Virginia Workers' Compensation Assigned Risk Plans. In its role as a serving carrier TIC issues and services certain workers compensation policies to Georgia and Virginia insureds. Those policies are subject to a 100% quota-share reinsurance agreement offered by the National Workers Compensation Reinsurance Pool or a state-based equivalent, which is administered by the National Council on Compensation Insurance, Inc. ("NCCI"). Technology wrote approximately $35,400, $45,300 and $26,700 of premium in 2009, 2008 and 2007, respectively, as a servicing carrier.

As part of the agreement to purchase Wesco from Household Insurance Group Holding Company ("Household"), the Company agreed to write certain business on behalf of Household for a three year period. The premium written under this arrangement is 100% reinsured by HSBC Insurance Company of Delaware, a subsidiary of Household. The reinsurance recoverable associated with this business is guaranteed by Household. Wesco wrote approximately $17,100, $25,200 and $32,600 million of premium in 2009, 2008 and 2007, respectively, subject to this reinsurance treaty.

10. Reinsurance – (continued)

During the third quarter of 2007, the Company and Maiden entered into master a agreement, as amended, by which they caused the Company's Bermuda affiliate, AII and Maiden Insurance to enter into a quota share reinsurance agreement (the ''Maiden Quota Share'') by which (a) AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by AmTrust's U.S., Irish and U.K. insurance companies (the ''AmTrust Ceding Insurers''), net of the cost of unaffiliated insuring reinsurance (and in the case of AmTrust's U.K. insurance subsidiary IGI, net of commissions) and 40% of losses and (b) AII transferred to Maiden Insurance 40% of the AmTrust Ceding Insurer's unearned premium reserves, effective as of July 1, 2007, with respect to then current lines of business, excluding risks for which the AmTrust Ceding Insurers' net retention exceeded $5,000 (''Covered Business''). AmTrust also agreed to cause AII, subject to regulatory requirements, to reinsure any insurance company which writes Covered Business in which AmTrust acquires a majority interest to the extent required to enable AII to cede to Maiden Insurance 40% of the premiums and losses related to such Covered Business. The Maiden Quota Share further provides that the AII receives a ceding commission of 31% of ceded written premiums on original lines of business. The Maiden Quota Share had an initial term of three years which was renewed for a successive three year term, through June 30, 2013 and will automatically renew for successive three year terms thereafter, unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three year term. In addition, either party is entitled to terminate on thirty day's notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Insurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers. Effective June 1, 2008 the Maiden Quota Share was amended such that AII agreed to cede and Maiden Insurance agreed to accept and reinsure retail commercial package business, which the Company, through Affiliates, commenced writing effective June 1, 2008, in connection with its acquisition of UBI. AII ceded to Maiden Insurance 100% of the unearned premium related to in-force retail commercial package business and losses related thereto at the acquisition date and 40% the Company's net written premium and losses on retail commercial package business written or renewed on or after the effective date. AmTrust receives a ceding commission of 34.375% for retail commercial package business.

As part of the acquisition of Associated, the Company acquired reinsurance recoverable as of the date of closing. The most significant reinsurance recoverable is from American Home Assurance Co. (''American Home''). AIIC's reinsurance relationship with American Home incepted January 1, 1998 on a loss occurring basis. From January 1, 1998 through March 31, 1999 the American Home reinsurance covered losses in excess of $250 per occurrence up to statutory coverage limits. Effective April 1, 1999, American Home provided coverage in the amount of $150 in excess of $100. This additional coverage terminated on December 31, 2001 on a run-off basis. Therefore, for losses occurring in 2002 that attached to a 2001 policy, the retention was $100 per occurrence. Effective January 1, 2002 American Home increased its attachment was $250 per occurrence. The XOL treaty that had an attachment of $250 was terminated on a run-off basis on December 31, 2002. Therefore, losses occurring in 2003 that attached to a 2002 policy were ceded to American Home at an attachment point of $250 per occurrence.

The Company, through its subsidiary, WIC, entered into a quota share reinsurance agreement with five syndicate members of Lloyd's of London, by which it ceded to them, collectively, 10% and 73%, of premiums and losses related to a particular specialty risk and extended warranty program in 2008 and 2007, respectively.

Since January 1, 2003, the Company has had variable quota share reinsurance with Munich Reinsurance Company (''Munich Re'') for our Specialty Risk and Extended Warranty insurance. The scope of this reinsurance arrangement is broad enough to cover all of our Specialty Risk and Extended Warranty insurance worldwide. However, we do not cede to Munich Re the majority of our U.S. specialty risks and extended warranty business, although we may cede more of this U.S. business to Munich Re in the future.

10. Reinsurance – (continued)

Under the variable quota share reinsurance arrangements with Munich Re, we may elect to cede from 10% to 50% of each covered risk, subject to a limit of £500 for each ceded risk which we at acceptance regard as one individual risk. This means that regardless of the amount of insured losses generated by any ceded risk, the maximum coverage for that ceded risk under this reinsurance arrangement is £500. For the majority of the business ceded under this reinsurance arrangement, we cede 10% of the risk to Munich Re, but for some newer or larger risks, we cede a larger share to Munich Re. This reinsurance is subject to a limit of £2.5 million per occurrence of certain natural perils such as windstorms, earthquakes, floods and storm surge. Coverage for losses arising out of acts of terrorism is excluded from the scope of this reinsurance.

Included in the Company's loss reserves as of December 31, 2009, 2008 and 2007 is approximately $3,202, $3,329 and $3,847, respectively, relating to assumed lines of business (written primarily by RIC prior to its acquisition by the Company) that are in a run-off position. The Company continuously updates the reserves on these lines of business based on information available from the ceding insurers. During 2009, the Company commuted certain loss reserves of $4,612 related to workers' compensation that were included in ceded reinsurance treaties. This commutation had no material effect on net earnings. During 2008, the Company did not commute any reinsurance contracts.

The effect of reinsurance with unrelated companies on premiums and losses for 2009, 2008 and 2007 are as follows:

	Year Ended December 31,					
	2009		2008		2007	
(Amounts in Thousands)	Written	Earned	Written	Earned	Written	Earned
Premiums:						
Direct	$1,117,090	$1,038,470	$1,061,100	$ 875,752	$ 807,055	$ 658,158
Assumed	81,856	49,626	49,474	48,156	32,336	30,365
Ceded	(555,520)	(514,214)	(555,661)	(484,811)	(419,510)	(244,287)
	$ 643,426	$ 573,882	$ 554,913	$ 439,097	$ 419,881	$ 444,236

	As of December 31,					
	2009		2008		2007	
(Amounts in Thousands)	Assumed	Ceded	Assumed	Ceded	Assumed	Ceded
Loss and LAE reserves	$71,859	$(561,963)	$57,827	$(514,759)	$33,290	$(258,028)
Unearned premiums	53,003	(410,553)	20,333	(372,030)	17,993	(244,683)
Loss and LAE expense incurred	24,511	(374,192)	42,468	(346,958)	18,269	(118,772)

11. Debt

Junior Subordinated Debt

The Company has established four special purpose trusts for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in junior subordinated debentures issued by the Company. In accordance with FASB ASC 810-10-25 (Prior authoritative literature: FIN 46(R) ''Consolidation of Variable Interest Entities''), the Company does not consolidate such special purpose trusts, as the Company is not considered to be the primary beneficiary. The equity investment, totaling $3,714 as of December 31, 2009 on the Company's consolidated balance sheet, represents the Company's ownership of common securities issued by the trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on the Company's common stock under certain circumstances, including default of payment. The Company incurred $2,605 of placement fees in connection with these issuances which is being amortized over thirty years.

11. Debt – (continued)

The table below summarizes the Company's trust preferred securities as of December 31, 2009:

(Amounts in Thousands) Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate of Notes
AmTrust Capital Financing Trust I	$ 25,000	$ 774	$ 25,774	3/17/2035	8.275%(1)
AmTrust Capital Financing Trust II	25,000	774	25,774	6/15/2035	7.710(1)
AmTrust Capital Financing Trust III	30,000	928	30,928	9/15/2036	8.830(2)
AmTrust Capital Financing Trust IV	40,000	1,238	41,238	3/15/2037	7.930(3)
Total trust preferred securities	$120,000	$3,714	$123,714		

(1) The interest rate will change to three-month LIBOR plus 3.40% after the tenth anniversary in 2015.

(2) The interest rate will change to LIBOR plus 3.30% after the fifth anniversary in 2011.

(3) The interest rate will change to LIBOR plus 3.00% after the fifth anniversary in 2012.

The Company recorded $10,209, $10,209 and $9,394 of interest expense for the years ended December 31, 2009, 2008 and 2007, respectively, related to these trust preferred securities.

Term Loan

On June 3, 2008, the Company entered into a term loan with JP Morgan Chase Bank, N.A. in the aggregate amount of $40,000. The term of the loan is for a period of three years and requires quarterly principal payments of $3,333, which began on September 3, 2008 and end on June 3, 2011. As of December 31, 2009, the principal balance was $20,000. The loan carries a variable interest rate and is based on a Eurodollar rate plus an applicable margin. The Eurodollar rate is a periodic fixed rate equal to the London Interbank Offered Rate "LIBOR" plus a margin rate, which is 185 basis points. As of December 31, 2009 the interest rate was 2.11%. The Company recorded $1,494 and $1,142 of interest expense for the years ended December 31, 2009 and 2008, respectively. The Company can prepay any amount without penalty upon prior notice. The term loan contains affirmative and negative covenants, including limitations on additional debt, limitations on investments and acquisitions outside the Company's normal course of business. The loan requires the Company to maintain a debt to capital ratio of 0.35 to 1 or less. The Company incurred financing fees of $52 related to the agreement.

On June 4, 2008, the Company entered into a fixed rate interest swap agreement with a total notional amount of $40,000 to convert the term loan from a variable to a fixed rate. Under this agreement, the Company pays a fixed rate of 3.47% plus a margin of 185 basis points or 5.32% and receives a variable rate in return based on LIBOR plus a margin rate, which is 185 basis points. The variable rate is reset every three months, at which time the interest will be settled and will be recognized as adjustments to interest expense. The Company recorded interest expense (income) of $756 and $(462) for the year ended December 31, 2009 and 2008, respectively, related to this agreement.

Promissory Note

In connection with the stock and asset purchase agreement with a subsidiary of Unitrin, Inc. ("Unitrin"), the Company, on June 1, 2008, issued a promissory note to Unitrin in the amount of $30,000. The note is non-interest bearing and requires four annual principal payments of $7,500, the first of which was paid in 2009, and the remaining principal payments are due on June 1, 2010, 2011 and 2012. Upon entering into the promissory note, the Company calculated imputed interest of $3,155 based on interest rates available to the Company, which was 4.5%. Accordingly, the note's carrying balance was adjusted to $26,845 at the acquisition. The note is required to be paid in full, immediately, under certain circumstances including a default of

11. Debt – (continued)

payment or change of control of the Company. The Company included $1,067 and $716 of amortized discount on the note in its results of operations for the year ended December 31, 2009 and 2008, respectively. The note's carrying value at December 31, 2009 and 2008 was $21,128 and $27,561, respectively.

Line of Credit

On June 3, 2008, the Company entered into an agreement for an unsecured line of credit with JP Morgan Chase Bank, N.A. in the aggregate amount of $25,000. The line is being used for collateral for letters of credit. On June 30, 2009, the Company amended this agreement, whereby, the line increased in the aggregate amount to $30,000 and its term was extended to June 30, 2010. The Company incurred fees of $30 for this amendment. Interest payments are required to be paid monthly on any unpaid principal and bears interest at a rate of LIBOR plus 150 basis points. As of December 31, 2009 there was no outstanding balance on the line of credit. The Company has outstanding letters of credit in place at December 31, 2009 for $26,505 which reduced the availability on the line of credit to $3,495 as of December 31, 2009.

Maturities of Debt

Maturities of the Company's debt for the five years subsequent to December 31, 2009 are as follows:

(Amounts in Thousands)	2010	2011	2012	2013	2014	Thereafter
Junior subordinated debt	$ —	$ —	$ —	$—	$—	$123,714
Term loan	13,333	6,667	—	—	—	—
Promissory note	6,729	7,037	7,362	—	—	—
Total	$20,062	$13,704	$7,362	$—	$—	$123,714

12. Related Party Transactions

Reinsurance Agreement — Maiden

Maiden Holdings, Ltd. (''Maiden'') is a publicly-held Bermuda insurance holding company (Nasdaq: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, the principal shareholders, and, respectively, the chairman of the board of directors, a director, and the chief executive officer and director of the Company. As of December 31, 2009, assuming full exercise of outstanding warrants, Michael Karfunkel owns or controls approximately 15% of the issued and outstanding capital stock of Maiden, George Karfunkel owns or controls approximately 10.5% of the issued and outstanding capital stock of Maiden and Mr. Zyskind owns or controls approximately 5.7% of the issued and outstanding stock of Maiden. Mr. Zyskind serves as the non-executive chairman of the board of Maiden's board of directors. Maiden Insurance Company, Ltd (''Maiden Insurance''), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer.

During the third quarter of 2007, the Company and Maiden entered into master agreement, as amended, by which they caused the Company's Bermuda affiliate, AmTrust International Insurance, Ltd. (''AII'') and Maiden Insurance to enter into a quota share reinsurance agreement (the ''Maiden Quota Share''), as amended, by which (a) AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by AmTrust's U.S., Irish and U.K. insurance companies (the ''AmTrust Ceding Insurers''), net of the cost of unaffiliated insuring reinsurance (and in the case of AmTrust's U.K. insurance subsidiary IGI, net of commissions) and 40% of losses and (b) AII transferred to Maiden Insurance 40% of the AmTrust Ceding Insurer's unearned premium reserves, effective as of July 1, 2007, with respect to the Company's then current lines of business, excluding risks for which the AmTrust Ceding Insurers' net retention exceeded $5,000 (''Covered Business'').

AmTrust also has agreed to cause AII, subject to regulatory requirements, to reinsure any insurance company which writes Covered Business in which AmTrust acquires a majority interest to the extent required to enable AII to cede to Maiden Insurance 40% of the premiums and losses related to such Covered Business.

12. Related Party Transactions – (continued)

In June 2008, AII, pursuant to the Maiden Quota Share, offered to cede to Maiden Insurance and Maiden Insurance agreed to assume 100% of unearned premium and losses related to in-force retail commercial package business assumed by the Company in connection with its acquisition of UBI, the commercial package business of Unitrin, Inc. (''Unitrin'') from a subsidiary of Unitrin and 40% of prospective net premium written and losses related to retail commercial package business. In September 2008, AII, pursuant to the Maiden Quota Share, offered to cede and Maiden Insurance agreed to assume 40% of the net premium written and losses with respect to certain business written by AmTrust's Irish insurance subsidiary, AIU, for which AIU retains in excess of $5,000 per loss (''Excess Retention Business'').

The Maiden Quota Share, as amended, further provides that AII receives a ceding commission of 31% of ceded written premiums with respect to Covered Business and the AIU Excess Retention Business and 34.375% with respect to retail commercial package business. The Maiden Quota Share, which had an initial term of three years, has been renewed for a successive three year term until June 30, 2013 and will automatically renew for successive three year terms, unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three year term. In addition, either party is entitled to terminate on thirty day's notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Insurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers.

The following is the effect on the Company's balance sheet as of December 31, 2009 and 2008 related to the Maiden Quota Share agreement:

(Amounts in Thousands)	2009	2008
Assets and liabilities:		
Reinsurance recoverable	$ 293,626	$ 221,214
Prepaid reinsurance premium	262,128	243,511
Ceded reinsurance premiums payable	(86,165)	(102,907)
Note payable	(167,975)	(167,975)

The following is the effect on the Company's results of operations for the years ended December 31, 2009, 2008 and 2007 related to the Maiden Quota Share agreement:

	2009	2008	2007
Results of operations:			
Premium written – ceded[1]	$(379,744)	$(444,981)	$(247,647)
Change in unearned premium – ceded	21,747	106,411	137,099
Earned premium – ceded	$(357,997)	$(338,570)	$(110,548)
Ceding commission on premium written	$ 118,991	$ 141,168	$ 76,648
Ceding commission – deferred	6,140	(26,451)	(17,571)
Ceding commission – earned	$ 125,131	$ 114,717	$ 59,077
Incurred loss and loss adjustment expense – ceded	$ 259,780	$ 232,290	$ 40,898
Interest expense on collateral loan	2,958	6,541	—

(1) 2008 includes $59,779 of ceded written premium ($47,686 of earned premium) related the unearned premium transfer that was acquired as part of the Company's acquisition of UBI and subsequently reinsured 100% to Maiden.

12. Related Party Transactions – (continued)

The Maiden Quota Share requires that Maiden Insurance provide to AII sufficient collateral to secure its proportional share of AII's obligations to the U.S. AmTrust Ceding Insurers. AII is required to return to Maiden Insurance any assets of Maiden Insurance in excess of the amount required to secure its proportional share of AII's collateral requirements, subject to certain deductions. In order to secure its proportional share of AII's obligation to the AmTrust Ceding Insurers domiciled in the U.S., AII currently has outstanding a collateral loan issued to Maiden Insurance in the amount of $167,975 (See Note Payable — Collateral for Proportionate Share of Reinsurance Obligation). Effective December 1, 2008, AII and Maiden Insurance entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Insurance is required to provide AII the assets required to secure Maiden's proportional share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral as of December 31, 2009 was $206,950. Maiden retains ownership of the collateral in the trust account.

Reinsurance Brokerage Agreement — Maiden

Effective July 1, 2007, AmTrust, through a subsidiary, entered into a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, AmTrust provides brokerage services relating to the Reinsurance Agreement for a fee equal to 1.25% of reinsured premium. The brokerage fee is payable in consideration of AII Reinsurance Broker Ltd.'s brokerage services. The Company recorded $5,135, $5,492 and $3,092 of brokerage commission (recorded as a component of Service and fee income) during the years ended December 31, 2009, 2008 and 2007, respectively.

Asset Management Agreement — Maiden

Effective July 1, 2007, AmTrust, through a subsidiary, entered into an asset management agreement with Maiden, pursuant to which it provides investment management services to Maiden and its affiliates. The Company currently manages approximately $1,700,000 of assets as of December 31, 2009 related to this agreement. Pursuant to the asset management agreement, AmTrust earned an annual fee equal to 0.35% per annum, through March 31, 2007, of average invested assets plus all costs incurred. Effective April 1, 2008, the investment management services fee was reduced to 0.20% per annum for periods in which average invested assets are $1,000,000 or less and 0.15% per annum for periods in which the average invested assets exceed $1,000,000. As a result of this agreement, the Company earned approximately $2,459, $1,364 and $882 of investment management fees for the years ended December 31, 2009, 2008 and 2007, respectively.

Services Agreement — Maiden

AmTrust, through its subsidiaries, entered into services agreements in 2008, pursuant to which it provides certain marketing and back office services to Maiden. Pursuant to the services agreements, AmTrust earns a fee equal to the amount required to reimburse AmTrust for its costs plus 8%. As a result of this agreement, the Company recorded fee income of approximately $432 and $1,152 for the years ended December 31, 2009 and 2008, respectively.

Note Payable to Maiden — Collateral for Proportionate Share of Reinsurance Obligation

In conjunction with the Maiden Quota Share, AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby, Maiden Insurance agreed to lend to AII from time to time the amount of the obligation of the AmTrust Ceding Insurers that AII is obligated to secure, not to exceed an amount equal to Maiden Insurance's proportionate share of such obligations. The loan agreement was amended in February 2008 to provide for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Each advance under the loan is secured by a promissory note. Advances totaled $167,975 as of December 31, 2009. The Company recorded $2,958 and $6,541 of interest expense during years ended December 31, 2009 and 2008, respectively.

12. Related Party Transactions – (continued)

Other Reinsurance Agreement — Maiden

From January 1, 2008, through January 1, 2010, Maiden was a participating reinsurer in the first layer of the Company's workers' compensation excess of loss program, which provides coverage in the amount of $9,000 per occurrence in excess of $1,000, subject to an annual aggregate deductible of $1,250. Maiden has a 45% participation in the layer.

ACAC

AmTrust entered into an agreement to make a strategic investment in American Capital Acquisition Corporation (''ACAC'') (See Note 25. ''Subsequent Event''). Pursuant to that agreement, ACAC agreed to pay all fees and expenses in connection with the transaction. As of December 31, 2009, advances to ACAC related to fees and expenses totaled $658 and consisted of $380 for due diligence services performed by certain AmTrust employees and $278 for certain deal costs including consulting, legal and regulatory filings.

Additionally, AmTrust, through its subsidiaries, entered into a services agreement in 2009, pursuant to which it provides ACAC and its affiliate's information technology development services at a price of cost plus 20%. Once a new system to be developed by the Company is implemented and ACAC or its affiliates begin using the system in its operations, the Company, subject to regulatory approval, will be entitled to an additional fee for use of the systems in the amount of 1.25% of gross premiums of ACAC and its affiliates. As a result of this agreement, the Company recorded approximately $216 of fee income for the year ended December 31, 2009.

As a result of these agreements, the Company recorded fees totaling approximately $596 for the year ended December 31, 2009 and a receivable of $874 as of December 31, 2009.

Leap Tide Capital Management

In December 2006, the Company formed a wholly-owned subsidiary currently named Leap Tide Capital Management, Inc. (LTCMI). LTCMI currently manages approximately $44,000 of the Company's investment portfolio.

Concurrently with the aforementioned formation, the Company formed Leap Tide Partners, L.P. (''LTP''), a domestic partnership and Leap Tide Offshore, Ltd. (''LTO''), a Cayman exempted company, both of which were formed for the purpose of providing qualified third-party investors the opportunity to invest funds in vehicles managed by LTCMI (the ''Hedge Funds''). The Company also is a member of Leap Tide Capital Management G.P., LLC (''LTGP''), which is the general partner of LTP. LTCMI earns a management fee equal to 1% of LTP's and LTO's assets. LTCMI earns an incentive fee of 20% of the cumulative profits of the LTO. LTGP earns an incentive fee of 20% of the cumulative profits of each limited partner of LTP, 50% of which is allocated to the Company's membership interest. As of December 31, 2009, the current value of the invested funds in the Hedge Funds was approximately $17,800. The majority of funds invested in the Hedge Funds were provided by members of the Karfunkel family. The Company's Audit Committee has reviewed the Leap Tide transactions and determined that they were entered into at arm's-length and did not violate the Company's Code of Business Conduct and Ethics.

Through March 31, 2008 the Company consolidated LTP in accordance with FASB ASC 810-20-25 (Prior authoritative literature: EITF 04-05 ''Determining Whether a General Partner, or the General Partners as a Group Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights''), as the rights of the limited partners did not overcome the rights of LTGP, as general partner. Effective April 1, 2008, the limited partnership agreement was amended such that a majority of the limited partners had the right to liquidate the limited partnership. In addition, the Company ceased being the managing member of LTGP. Due to this amendment, in accordance with FASB ASC 810-20-25, the Company ceased to consolidate LTP as of April 1, 2008. Through March 31, 2008, the Company allocated an equivalent portion of the limited

12. Related Party Transactions – (continued)

partners' income or loss to non-controlling interest. For the years ended December 31, 2008 and 2007, LTP had an investment loss of $2,900 and $6,053, respectively and resulted in an allocation to non-controlling interest of $2,900 and $6,053. LTCMI earned approximately $47, $603 and $1,073 of fees under the agreement during the years ended December 31, 2009, 2008 and 2007, respectively.

Lease Agreements

In 2002, the Company entered into a lease for approximately 9,000 square feet of office space at 59 Maiden Lane in New York, New York from 59 Maiden Lane Associates, LLC, an entity which is wholly-owned by Michael Karfunkel and George Karfunkel. Effective January 1, 2008, the Company entered into an amended lease whereby it increased its leased space to 14,807 square feet and extended the lease through December 31, 2017. The Company's Audit Committee reviewed and approved the amended lease agreement as amended. The Company paid approximately $586, $587 and $348 for the lease for the years ended December 31, 2009, 2008 and 2007, respectively.

In 2008, the Company entered into a lease for approximately 5,000 square feet of office space in Chicago, Illinois from 33 West Monroe Associates, LLC, an entity which is wholly-owned by Michael Karfunkel and George Karfunkel. Effective May 1, 2009, the Company entered into an amended lease by which the Company increased its leased space to 7,156 square feet. The Company's Audit Committee reviewed and approved the lease agreement. The Company paid approximately $168 and $123 for the years ended December 31, 2009 and 2008, respectively.

Warrantech

In February of 2007, the Company participated with H.I.G. Capital, a Miami-based private equity firm, in financing H.I.G. Capital's acquisition of Warrantech in a cash merger. The Company contributed $3,850 for a 27% equity interest in Warrantech. Warrantech is an independent developer, marketer and third party administrator of service contracts and after-market warranty primarily for the motor vehicle and consumer product industries. The Company currently insures a majority of Warrantech's business, which produced gross written premium of approximately $69,182, $86,523 and $41,313 during the years ended December 31, 2009, 2008 and 2007, respectively. The Company recorded investment loss of approximately $822, $991 and $749 from its equity investment for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009 the Company's equity investment was approximately $1,288. Additionally in 2007, the Company provided Warrantech with $20,000 in funds in exchange for a senior secured note due January 31, 2012 in that principal amount (note receivable — related party). Interest on the notes is payable monthly at a rate of 15% per annum and consisted of a cash component at 11% per annum and 4% per annum for the issuance of additional notes (''PIK Notes'') in a principle amount equal to the interest not paid in cash on such date. As of December 31, 2009 the carrying value of the note receivable was $23,224 (note receivable — related party).

Principal Shareholders Consolidation

AmTrust Financial Group, Inc. (''AFG''), through G/MK Acquisition Corp., an intermediate holding company, was the principal shareholder of the Company, owning approximately 24,089,286 shares of common stock of the Company (the ''Common Stock''). Messrs. Michael Karfunkel, George Karfunkel and Barry Zyskind directly or indirectly held approximately 37.5%, 37.5% and 25.0%, respectively, of AFG. To simplify the stock ownership of the Company, two mergers were consummated, in 2007, whereby AFG and G/MK Acquisition Corp. were merged with and into a wholly owned subsidiary of the Company. AFG and G/MK Acquisition Corp. were primarily shell holding companies with no other assets, except for common stock. As a result, the Company issued and delivered to Michael Karfunkel, George Karfunkel and Barry Zyskind 24,088,000 shares of Common Stock in exchange for 24,089,286 shares of Common Stock held by AFG, which shares were then issued to in proportion to their respective AFG holdings: Michael Karfunkel received 9,033,000 shares, George Karfunkel received 9,033,000 shares, Barry Zyskind received 6,022,000, and the

12. Related Party Transactions – (continued)

remaining 1,286 shares were returned to the treasury of the Company. The mergers had no impact on the Company's financial position, results of operations or cash flows for the year ended 2007.

Diversified

Diversified Construction Management, LLC (''Diversified'') provided construction management and general contractor services for a Company subsidiary in 2009. During 2009, the Company recorded a total of $260 for its services in connection with the construction project. Robert A. Saxon, Jr. principal of Diversified, is the brother of Michael J. Saxon, our Chief Operating Officer. The Company believes that the contract is an arms-length relationship and that it does not violate our Code of Business Conduct and Ethics.

13. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses:

Policy Acquisition Expenses	2009	2008	2007
Policy acquisition expenses	$120,182	$100,806	$ 77,999
Salaries and benefits	80,179	65,416	42,703
Other insurance general and administrative expense	43,918	37,525	34,664
	$244,279	$203,747	$155,366

14. Share Based Compensation

The Company's 2005 Equity and Incentive Plan (''2005 Plan'') permits the Company to grant to officers, employees and non-employee directors of the Company incentive compensation directly linked to the price of the Company's stock. The Company grants options at prices equal to the closing stock price of the Company's stock on the dates the options are granted. The options have a term of ten years from the date of grant and vest primarily in equal annual installments over the four-year period following the date of grant for employee options. Employees have three months after the employment relationship ends to exercise all vested options. The aggregate number of shares of Common Stock for which awards may be issued may not exceed 5,994,300 shares, and the aggregate number of shares of Common Stock for which restricted stock awards may be issued may not exceed 1,998,100 shares, subject to the authority of our board of directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting our Common Stock. As of December 31, 2009, 1,826,211 shares of Company common stock remained available for grants under the Plan.

The Company recognizes compensation expense under FASB ASC 718-10-25 (Prior authoritative literature: SFAS No. 123(R) ''Share-Based Payment'') for its share-based payments based on the fair value of the awards. The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. ASC 718-10-30 fair value valuation method resulted in share-based expense (a component of salaries and benefits) in the amount of approximately $4,241, $3,136 and $1,830 related to stock options for the years ended 2009, 2008 and 2007, respectively.

14. Share Based Compensation – (continued)

The fair value was estimated at the date of grant with the following weighted average assumptions for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Volatility	31.04%	28.84%	33.67%
Risk-free interest rate	2.50%	1.80%	4.79%
Weighted average expected lives in years	6.25	6.25	6.25
Dividend rate	1.98%	1.00%	1.00%
Forfeiture rate	1.45%	3.00%	3.00%

A summary of the Company's stock option activity for the years ended December 31, 2009, 2008 and 2007 is shown below:

	2009		2008		2007	
(Amounts in Thousands Except for Exercise Price)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,728,500	$ 9.88	3,126,250	$ 8.91	2,389,750	$ 7.25
Granted	565,539	10.95	732,500	13.96	797,500	13.78
Forfeited	(92,250)	9.26	(31,500)	7.88	(61,000)	7.50
Exercised	(33,700)	7.50	(98,750)	7.50	—	—
Outstanding at end of year	4,168,089	$10.12	3,728,500	$ 9.88	3,126,250	$ 8.91

The weighted average grant date fair value of options granted was $3.04, $4.46 and $5.41 during 2009, 2008 and 2007, respectively. The Company had approximately $5,144, $6,900 and $7,200 of unrecognized compensation cost related to unvested stock options as of December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, all option grants outstanding had an approximate weighted average remaining life of 7.4 years. As of December 31, 2009 and 2008, there were approximately 2,576,000 shares and 1,600,000 shares, respectively, with a weighted average exercise price of $9.11 and $13.97, respectively, that were exercisable. The intrinsic value of stock options exercised during 2009 and 2008 was less than $800. No options were exercised in 2007. Cash received from option exercised was $315 and $1,612 during 2009 and 2008.

15. Income Taxes

The provision for income taxes consists of the following for the years ended December 31, 2009, 2008 and 2007:

(Amounts in Thousands) Income Tax Provision (Benefit)	2009	2008	2007
Current	$15,177	$18,094	$34,816
Deferred	12,282	2,473	1,893
	$27,459	$20,567	$36,709

15. Income Taxes – (continued)

The effective income tax rate differs from the statutory income tax rate as follows for the years ended December 31, 2009, 2008 and 2007:

(Amounts in Thousands)	2009	2008	2007
Income before provision for income taxes and non-controlling interest	$130,682	$100,595	$120,796
Less: non-controlling interest	—	(2,900)	(6,053)
Income before provision for income taxes	$130,682	$103,495	$126,849
Tax at federal statutory rate of 35%	$ 45,740	$ 36,223	$ 44,397
Tax effects resulting from:			
Net income of non-includible foreign subsidiaries	(12,905)	(13,502)	(8,716)
Foreign currency gain	(860)	(864)	(45)
Other, net	(4,515)	(1,290)	1,073
	$ 27,459	$ 20,567	$ 36,709

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2009 and 2008 are shown below:

	2009	2008
Deferred tax assets:		
Ceding commission	$ 16,887	$ 14,481
Losses and LAE reserves	8,101	22,276
Unearned premiums	32,477	27,261
Unrealized depreciation of investments	9,165	56,977
Bad debt	2,977	2,689
Equity compensation	1,747	9,62
Carryforward loss	19,182	—
Other	8,828	7,678
	99,335	132,324
Deferred tax liabilities:		
Earned but unbilled premiums	—	—
Deferred acquisition costs	(79,950)	(50,868)
Other, net	(11,770)	(4,546)
	(91,720)	(55,414)
Deferred tax asset, net	$ 7,615	$ 76,910

The Company's management believes that it will realize the benefits of its deferred tax asset and, accordingly, no valuation allowance has been recorded for the periods presented. The Company does not provide for income taxes on the unremitted earnings of foreign subsidiaries where, in management's opinion, such earnings have been indefinitely reinvested. It is not practical to determine the amount of unrecognized deferred tax liabilities for temporary differences related to these investments. The deferred tax asset related to Loss and LAE reserves of $8,101 is net of the deferred tax liability of $14,243 for use of equalization reserves which were acquired as part of the AmTrust Re Gamma and AmTrust Re Omega acquisitions.

The Company's major taxing jurisdictions include the U.S. (federal and state), the United Kingdom and Ireland. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the Company's statute of limitation is open for tax years ended December 31, 2005 and forward. As permitted by FASB

15. Income Taxes – (continued)

ASC 740-10 (Prior authoritative literature: FIN 48 ''Accounting for Uncertainty in Income Taxes''), the Company adopted an accounting policy to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. Previously, the Company's policy was to classify interest and penalties as an operating expense in arriving at pre-tax income. At December 31, 2009, the Company has approximately $1,546 of accrued interest and penalties related to unrecognized tax benefits in accordance with FASB ASC 740-10.

During 2007, the Company, while performing a review of the income tax return filed with the Internal Revenue Service (''IRS'') for calendar year ending December 31, 2006, determined an issue existed per FASB ASC 740-10 guidelines concerning its position related to accrued market discount. The Company reverses accrued market discount income recognized for book purposes when calculating taxable income. The reversal results from the accrued market discount income recognized by the insurance subsidiaries for bonds and other investments. The Company inadvertently reversed the amount related to commercial paper investments on the 2006 income tax return. The Company has estimated the potential liability to be approximately $968 (including $151 for penalties and interest) and has reflected this position, per FASB ASC 740-10 guidelines, in the consolidated financial statements.

During 2006, the IRS completed an audit of the 2002 and 2003 consolidated federal income tax returns of the Company's subsidiaries, AIIS (now known as AmTrust North America of Florida, Inc.) and AIIC, (collectively ''Associated''), which the Company acquired in 2007. In August 2009, the IRS, with the Company's consent, issued an assessment of additional tax in the aggregate amount of $350. In September 2009, the IRS, with the Company's consent, assessed interest in the total amount of $287. The Company made payment of the additional tax in full in the third quarter of 2009 and the related interest payment in October 2009. As a result of these payments, the Company believes the aforementioned liabilities have been settled with the IRS and anticipates making final settlement in 2010 of any remaining liabilities associated with the $4,325 contingent liability with the sellers of Associated.

During 2008, the IRS commenced an audit of Associated's consolidated federal tax return for 2006. As a result of this audit, the IRS proposed adjustments resulting in additional tax in the total amount of $169 for 2006 and the period ended August 31, 2007. The Company has accepted, and settled, the proposed adjustments.

A reconciliation of the total amounts of gross unrecognized tax benefits is as follows:

(Amounts in Thousands)	2009	2008
Gross unrecognized tax benefit as of January 1	$5,240	$5,188
Decreases in tax positions for prior years	—	—
Increases in tax positions for prior years	53	52
Decreases in tax positions for current year	—	—
Increases in tax positions for current year	—	—
Lapse in statute of limitations	—	—
Settlements	—	—
Gross unrecognized tax benefits as of December 31	$5,293	$5,240

Listed below are the tax years that remain subject to examination by major tax jurisdictions:

	Open Tax Years
Major tax jurisdictions:	
United States	2006 – 2008
United Kingdom	2006 – 2008
Ireland	2005 – 2008

16. Employee Benefit Plans

The Company sponsors a defined contribution pension plan. Participation in this plan is available to a majority of employees. Contributions to this plan were based on a percentage of employee contributions. The Cost of this plan for the Company was approximately $1,021, $880 and $454 for the years ended December 31, 2009, 2008 and 2007, respectively.

17. Earnings per Share

The following, is a summary of the elements used in calculating basic and diluted earnings per share for the years ended December 31, 2009, 2008 and 2007:

(Amounts in Thousands Except Earnings per Share)	2009	2008	2007
Net income available to common shareholders	$103,223	$82,928	$90,140
Weighted average number of common shares outstanding – basic	59,433	59,991	59,958
Potentially dilutive shares:			
Dilutive shares from stock – based compensation	521	680	716
Weighted average number of common shares outstanding – diluted	59,954	60,671	60,674
Net income – basic earnings per share	$ 1.74	$ 1.38	$ 1.50
Net income – diluted earnings per share	$ 1.72	$ 1.37	$ 1.49

18. Accumulated Other Comprehensive Income (Loss)

(Amounts in Thousands)	Foreign Currency Items	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2006	$ 2,698	$ 1,007	$ 3,705
Current period changes, net of tax	(2,011)	(33,382)	(35,393)
Balance, December 31, 2007	687	(32,375)	(31,688)
Current period changes, net of tax	(13,006)	(61,121)	(74,127)
Balance, December 31, 2008	(12,319)	(93,496)	(105,815)
Current period changes, net of tax	4,863	83,932	88,795
Balance, December 31, 2009	$ (7,456)	$ (9,564)	$ (17,020)

19. Commitments and Contingencies

Litigation

The Company's insurance subsidiaries are named as defendants in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the loss and LAE reserves. The Company's management believes the resolution of those actions will not have a material adverse effect on the Company's financial position or results of operations.

19. Commitments and Contingencies – (continued)

Lease Commitments

The Company is obligated under approximately 26 leases for office space expiring at various dates through 2018.

Future minimum lease payments as of December 31, 2009 under non-cancellable operating leases for each of the next five years are approximately as follows:

(Amounts in Thousands)	
2010	$ 6,476
2011	5,299
2012	3,296
2013	2,969
2014	2,782
2015 and Thereafter	7,517
	$28,339

Rent expense for the years ended December 31, 2009, 2008 and 2007 was $6,869, $6,437 and $3,379, respectively.

Employment Agreements

The Company has employment agreements with approximately 20 of its key executives and employees. The agreements terminate on varying dates through 2013, contain annual minimum levels of compensation, and contain bonuses based on the Company's achieving certain financial targets. The annual future minimums in the aggregate are as follows through 2013:

(Amounts in Thousands)	
2010	$ 5,189
2011	3,391
2012	2,225
2013	259
	$11,064

20. Dividend Restriction and Risk Based Capital

The Company's insurance subsidiaries are subject to statutory and regulatory restrictions, applicable to insurance companies, imposed by the states of domicile, which limit the amount of cash dividends or distributions that they may pay and was approximately $202,300 and $129,400 as of December 31, 2009 and 2008, respectively. During 2009, the Company received a dividend of $4,500 from one of its subsidiaries. The Company's insurance subsidiaries did not pay any dividends in 2008 and 2007.

Property and casualty insurance companies in the United States are subject to certain Risk-Based Capital ("RBC") requirements as specified by the National Association of Insurance Commissioners. Under such requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined on various risk factors. As of December 31, 2009 and 2008, the capital and surplus of the Company's four insurance subsidiaries domiciled in the United States exceeded the RBC requirements.

21. Statutory Financial Data

The Company's insurance subsidiaries file financial statements in accordance with statutory accounting practices ("SAP") prescribed or permitted by domestic or foreign insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between domestic and foreign jurisdictions. The principal differences relate to (1) acquisition costs incurred in

21. Statutory Financial Data – (continued)

connection with acquiring new business which are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) limitation on net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and loss expense, and unearned premium reserves are presented gross of reinsurance with a corresponding asset recorded; and (4) fixed maturity portfolios that qualify as available-for-sale are carried at fair value and changes in fair value are reflected directly in unassigned surplus, net of related deferred taxes.

Statutory surplus and net income for insurance operations as reported to regulatory authorities were approximately as follows:

December 31, 2009	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$167,316	$178,467	$15,259	$16,338
RIC (domestic)	36,782	40,460	8,772	9,413
WIC (domestic)	52,875	53,511	6,806	7,402
AIIC (domestic)	51,636	58,646	10,973	11,425
SNIC (domestic)	15,641	16,252	231	149
MCIC (domestic)	10,967	11,258	514	422
TLIC (domestic)	2,116	2,121	11	—
AICK (domestic)	9,648	10,035	(263)	(207)
IGI (United Kingdom)	37,785	37,785	2,015	2,266
AIU (Ireland)	96,329	111,156	15,387	13,999
AII (Bermuda)	224,823	327,681	17,891	17,891

December 31, 2008	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$146,699	$164,027	$ 7,680	$13,169
RIC (domestic)	30,702	32,442	5,693	6,145
WIC (domestic)	37,167	41,069	5,109	5,877
AIIC (domestic)	45,068	44,295	13,507	11,399
SNIC (domestic)	15,276	15,805	89	525
MCIC (domestic)	10,390	10,556	113	173
TLIC (domestic)	2,085	2,122	21	33
AICK (domestic)	9,991	10,160	76	380
IGI (United Kingdom)	18,519	18,519	5,459	5,459
AIU (Ireland)	76,067	93,242	8,267	17,204
AII (Bermuda)	183,063	220,610	1,346	1,346

December 31, 2007	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$132,652	$131,857	$ 9,829	$10,614
RIC (domestic)	24,649	24,781	3,635	3,352
WIC (domestic)	31,803	30,006	5,709	5,843
AIIC (domestic)	33,240	33,507	386	(2,600)
IGI (United Kingdom)	16,158	16,158	3,964	3,964
AIU (Ireland)	69,302	79,009	4,789	10,424
AII (Bermuda)	225,868	282,475	74,567	74,567

22. Geographic Information

Three of the Company's insurance subsidiaries (AII, AIU and IGI) operate outside the United States. Their assets and liabilities are located principally in the countries where the insurance risks are written or assumed. For 2009, 21% of the Company's gross written premiums related to foreign risks, of which 47% were written from the United Kingdom. For 2008, 19% of the Company's gross written premiums related to foreign risks, of which 44% were written from the United Kingdom. For 2007, 22% of the Company's gross written premiums related to foreign risks, of which 46% were written from the United Kingdom. As of December 31, 2009 and 2008, approximately 46% and 45%, respectively, of the consolidated assets were located outside the United States. For the years ended 2009, 2008 and 2007, approximately 66%, 69% and 73%, respectively, of the consolidated revenues earned were located in or derived from foreign countries. The foreign and domestic components of income before other income (expense) and provision for income taxes are as follows:

(Amounts in Thousands) December 31,	2009	2008	2007
Domestic	$63,694	$70,610	$55,325
Foreign	66,988	48,462	81,484

The following table summarizes the Company's operations by major geographic segment:

(Amounts in Thousands)	Domestic	Bermuda	Other Foreign
December 31, 2009:			
Revenue	$249,112	$429,042	$61,235
Property and equipment	15,428	—	430
December 31, 2008:			
Revenue	$175,094	$329,287	$71,159
Property and equipment	14,840	—	267
December 31, 2007:			
Revenue	$158,120	$359,936	$58,868
Property and equipment	12,467	—	507

23. Segments

The Company currently operates three business segments, Small Commercial Business; Specialty Risk and Extended Warranty; and Specialty Middle Market Business. The "Corporate & Other" segment represents the activities of the holding company as well as a portion of fee revenue. In determining total assets (excluding cash and invested assets) by segment, the Company identifies those assets that are attributable to a particular segment such as deferred acquisition cost, reinsurance recoverable, goodwill and intangible assets and prepaid reinsurance while the remaining assets are allocated based on net written premium by segment. In determining cash and invested assets by segment, the Company matches certain identifiable liabilities such as unearned premium and loss and loss adjustment expense reserves by segment. The remaining cash and invested assets are then allocated based on net written premium by segment. Investment income and realized gains (losses) are determined by calculating an overall annual return on cash and invested assets and applying that overall return to the cash and invested assets by segment. Ceding commission revenue is allocated to each segment based on that segment's proportionate share of the Company's overall acquisition costs. Interest expense is allocated based on net written premium by segment. Income taxes are allocated on a pro rata basis based on the Company's effective tax rate. Additionally, management reviews the performance of underwriting income in assessing the performance of and making decisions regarding the allocation of resources to the segments. Underwriting income excludes, primarily, service and fee revenue, investment income and other

23. Segments – (continued)

revenues, other expenses, interest expense and income taxes. Management believes that providing this information in this manner is essential to providing Company's shareholders with an understanding of the Company's business and operating performance.

The following tables summarize business segments as follows for 2009, 2008 and 2007:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Middle Market Business	Corporate and Other	Total
Year ended December 31, 2009:					
Gross premium written	$ 469,627	$ 461,338	$ 267,981	$ —	$1,198,946
Net premium written	255,496	245,604	142,326	—	643,426
Change in unearned premium	(16,525)	(55,378)	2,359	—	(69,544)
Net earned premium	238,971	190,226	144,685	—	573,882
Ceding commission – primarily related party	59,415	25,909	28,607	—	113,931
Loss and loss adjustment expense	(137,525)	(98,797)	(91,449)	—	(327,771)
Acquisition costs and other underwriting expenses	(119,734)	(55,551)	(68,994)	—	(244,279)
	(257,259)	(154,348)	(160,443)	—	(572,050)
Underwriting income	41,127	61,787	12,849	—	115,763
Service and fee income	12,323	9,841	—	8,526	30,690
Investment income and realized gain (loss)	9,506	6,476	4,904	—	20,886
Other expenses	(9,073)	(8,114)	(5,045)	—	(22,232)
Interest expense	(6,890)	(6,162)	(3,832)	—	(16,884)
Foreign currency gain	—	2,459	—	—	2,459
Provision for income taxes	(9,875)	(13,928)	(1,865)	(1,791)	(27,459)
Net income	$ 37,118	$ 52,359	$ 7,011	$ 6,735	$ 103,223

23. Segments – (continued)

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Middle Market Business	Corporate and Other	Total
Year ended December 31, 2008:					
Gross premium written	$ 458,842	$ 415,921	$ 235,811	$ —	$1,110,574
Net premium written	226,573	209,230	119,110	—	554,913
Change in unearned premium	(53,546)	(55,294)	(6,976)	—	(115,816)
Net earned premium	173,027	153,936	112,134	—	439,097
Ceding commission – primarily related party	59,032	26,998	29,444	—	115,474
Loss and loss adjustment expense	(90,004)	(78,832)	(69,467)	—	(238,303)
Acquisition costs and other underwriting expenses	(97,856)	(47,637)	(58,254)	—	(203,747)
	(187,860)	(126,469)	(127,721)	—	442,050
Underwriting income	44,199	54,465	13,857	—	112,521
Service and fee income	12,646	8,750	—	7,582	28,978
Investment income, realized gain (loss) and loss on managed assets	(2,510)	(1,615)	(984)	(2,900)	(8,009)
Other expenses	(7,958)	(6,337)	(3,023)	—	(17,318)
Interest expense	(7,844)	(6,688)	(3,745)	—	(18,277)
Foreign currency gain	—	2,700	—	—	2,700
Provision for income taxes	(7,738)	(10,503)	(1,369)	(957)	(20,567)
Non-controlling interest in net income of subsidiary	—	—	—	2,900	2,900
Net income	$ 30,795	$ 40,772	$ 4,736	$ 6,625	$ 82,928

23. Segments – (continued)

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Middle Market Business	Corporate and Other	Total
Year ended December 31, 2007:					
Gross premium written	$ 308,815	$ 306,357	$224,219	$ —	$ 839,391
Net premium written	193,590	137,577	88,714	—	419,881
Change in unearned premium	44,073	(21,496)	1,778	—	24,355
Net earned premium	237,663	116,081	90,492	—	444,236
Ceding commission – primarily related party	36,392	11,544	14,906	—	62,842
Loss and loss adjustment expense	(139,081)	(81,864)	(56,041)	—	(276,986)
Acquisition costs and other underwriting expenses	(91,460)	(23,481)	(40,425)	—	(155,366)
	(230,541)	(105,345)	(96,466)	—	(432,352)
Underwriting income	43,514	22,280	8,932	—	74,726
Service and fee income	8,943	7,141	—	4,284	20,368
Investment income, realized gain (loss) and loss on managed assets	26,130	14,588	14,813	(6,053)	49,478
Other expenses	(5,743)	(5,026)	(3,047)	—	(13,816)
Interest expense	(4,234)	(3,609)	(2,246)	—	(10,089)
Foreign currency gain	—	129	—	—	129
Provision for income taxes	(19,855)	(10,274)	(5,340)	(1,240)	(36,709)
Non-controlling interest in net income of subsidiary	—	—	—	6,053	6,053
Net income	$ 48,755	$ 25,229	$ 13,112	$ 3,044	$ 90,140

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Middle Market Business	Corporate and Other	Total
As of December 31, 2009:					
Fixed assets	$ 6,471	$ 5,788	$ 3,599	$—	$ 15,858
Goodwill and intangible assets	80,849	19,319	15,660	—	115,828
Total assets	1,582,247	1,001,347	816,770	—	3,400,364
As of December 31, 2008:					
Fixed assets	$ 6,484	$ 5,528	$ 3,095	$—	$ 15,107
Goodwill and intangible assets	79,199	10,821	12,405	—	102,425
Total assets	1,697,860	933,035	512,996	—	3,143,893

24. Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results of operations:

	2009			
(Amounts in Thousands)	March 31,	June 30,	September 30,	December 31,
Earned premium	$132,423	$136,803	$145,292	$159,364
Investment Income	13,589	13,582	14,079	13,215
Net income	24,162	26,771	24,221	28,069
Basic EPS	0.40	0.45	0.41	0.47
Diluted EPS	0.40	0.45	0.40	0.47

	2008			
	March 31,	June 30,	September 30,	December 31,
Earned premium	$97,413	$115,945	$92,333	$133,406
Investment Income	13,531	14,190	15,391	16,346
Net income	22,263	26,350	9,361	24,954
Basic EPS	0.37	0.44	0.16	0.42
Diluted EPS	0.37	0.43	0.15	0.41

	2007			
	March 31,	June 30,	September 30,	December 31,
Earned premium	$118,692	$130,420	$81,788	$113,336
Investment Income	11,391	13,019	13,916	12,561
Net income	21,478	21,396	24,434	22,378
Basic EPS	0.36	0.36	0.41	0.38
Diluted EPS	0.36	0.35	0.40	0.38

25. Subsequent Event

Investment in ACAC that will purchase GMAC's U.S. Consumer Property and Casualty Insurance Business

In October 2009, the Company entered into an agreement to make a strategic investment in ACAC in connection with ACAC's acquisition from GMAC Insurance Holdings, Inc. ("GMACI") and Motors Insurance Corporation ("MIC", together with GMACI, "GMAC") of GMAC's U.S. consumer property and casualty insurance business, which was completed on March 1, 2010 (the "Acquisition"). The Company completed the strategic investment in ACAC in the amount of $53,000 on February 26, 2010 and the Acquisition closed effective March 1, 2010. ACAC was formed by the Michael Karfunkel 2005 Grantor Retained Annuity Trust (the "Trust"). The Trust is controlled by Michael Karfunkel, the chairman of the board of directors of the Company and the father-in-law of Barry D. Zyskind, the chief executive officer of the Company. The ultimate beneficiaries of the Trust include Michael Karfunkel's children one of whom is married to Mr. Zyskind.

Because ACAC is controlled by a related party, the Company's board of directors (the "Board"), on September 17, 2009, established a Special Committee to review, evaluate and negotiate the Company's potential investment in ACAC for the purpose of making the Acquisition as well as the merits of the Acquisition (the "Special Committee"). The Board previously had determined, on August 7, 2009, that the opportunity presented to Mr. Karfunkel to acquire the GMAC U.S. consumer property and casualty business did not constitute a corporate opportunity of the Company.

25. Subsequent Event – (continued)

The Board designated Messrs. Donald T. DeCarlo and Abraham Gulkowitz, two independent members of the Board, as the Special Committee, which was given the power and authority to:

(i) review and to evaluate the terms and conditions of the Investment and to determine the advisability of the Investment;

(ii) negotiate (or direct or participate in the negotiation) with Michael Karfunkel, the Trust or any other party the Special Committee deemed appropriate with respect to the terms and conditions of the Investment and, if the Special Committee deemed appropriate, recommend to the board of directors the approval and the execution and delivery of documents providing for the Investment;

(iii) determine whether the Investment is fair to, and in the best interests of, the Company and all of its stockholders (other than Michael Karfunkel, Barry Zyskind and their respective affiliates);

(iv) recommend to the entire Board what further action, if any, should be taken by the Board with respect to the Investment;

(v) retain, at the Company's expense, independent legal counsel to advise it and assist it in connection with fulfilling its duties as delegated by the Board; and

(vi) retain, at the Company's expense, such other consultants and agents, including, without limitation, independent investment bankers, as the Special Committee deemed necessary or appropriate to perform such services and render such advice or opinions as may be necessary or appropriate in order for the Special Committee to discharge its duties.

Pursuant to its authority, the Special Committee retained independent legal counsel to represent it in connection with the negotiation of the Investment and independent investment bankers to provide advice and render a fairness opinion. On October 15, 2009, the Special Committee, upon consideration of the proposed transaction, discussions with management of the Company, the advice of its independent legal counsel and the fairness opinion issued by its independent investment bankers, recommended that the Board authorize the Company to make the Investment, on the terms and conditions set forth in the Stock Purchase Agreement, and the related Shareholders Agreement dated October 16, 2009, among ACAC, the Company and the Trust and the Registration Rights Agreement dated October 16, 2009 among ACAC, the Company and the Trust (the "Investment Documents") negotiated by the Special Committee through its independent counsel. The Board approved the Investment on October 15, 2009, Mr. Michael Karfunkel abstaining.

The Special Committee found that the Investment, as set forth in the Investment Documents is fair to, and in the best interests of, the Company and all of its stockholders.

Pursuant to the Stock Purchase Agreement, ACAC, upon the closing of the Acquisition, issued and sold to the Registrant for a purchase price equal to 25% of the capital required by ACAC, 53,054 shares of Series A Preferred Stock, which provides for an 8% cumulative dividend, is non-redeemable and convertible, at Registrant's option, into 21.25% of the issued and outstanding Common Stock (the "Preferred Stock"). Pursuant to the amendment to the Stock Purchase Agreement dated February 26, 2010, Michael Karfunkel, individually, became a party to the Investment Documents. The amendment did not affect the Company's interests, rights or obligations under the Investment Documents. Upon the initial closing under the Stock Purchase Agreement, as amended, assuming the full conversion of the Preferred Stock by the Company, the Trust and Michael Karfunkel, individually, are the owners of 56.98% and 21.77%, respectively, of the Common Stock of ACAC. The Company has pre-emptive rights with respect to any future issuances of securities by ACAC and Company's conversion rights are subject to customary anti-dilution protections.

The Company has the right to appoint one member of ACAC's board of directors, which consists of three members. The ACAC board member appointed by the Company must be approved by the independent members of the Board. The Company has appointed Donald T. DeCarlo as its representative on the ACAC board of directors. Subject to certain limitations, the board of directors of ACAC may not take any action in the

25. Subsequent Event – (continued)

absence of the Company's appointee and ACAC may not take certain corporate actions without the unanimous prior approval of its board of directors (including the Company's appointee).

In consideration of the Investment:

(i) the Company, subject to all required regulatory approval, will provide ACAC and its affiliates information technology development services at a price of cost plus 20%. In addition, once a new system to be developed by the Company is implemented and ACAC or its affiliates begin using the system in its operations, the Company will be entitled to an additional fee for use of the systems in the amount of 1.25% of gross premiums of ACAC and its affiliates.

(ii) the Company, subject to all required regulatory approval, will also manage the assets of ACAC and its subsidiaries for a quarterly fee equal to 0.05% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1 billion or less and 0.0375% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1 billion.

(iii) ACAC will provide the Company with access to its agency sales force to distribute the Registrant's products, and ACAC and the Trust will use their best efforts to have said agency sales team appointed as the Registrant's agents.

(iv) ACAC will grant the Company a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMAC in connection with the Acquisition.

(v) the Company, subject to all required regulatory approval, effective March 1, 2010, shall reinsure 10% of the net premiums of the GMAC personal lines business, pursuant to a 50% quota share reinsurance agreement (''Personal Lines Quota Share'') with the GMAC personal lines insurance companies, as cedents, and the Company, MK Re, Ltd., a Bermuda reinsurer which is a wholly-owned subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. The Company has a 20% participation in the Personal Lines Quota Share, by which it receives 10% of net premiums of the personal lines business. The Personal Lines Quota share provides that the reinsurers, severally, in accordance with their participation percentages, shall receive 50% of the net premium of the GMAC personal lines insurance companies and assume 50% of the related net losses. The Personal Lines Quota Share has an initial term of three years and shall renew automatically for successive three year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. Notwithstanding the foregoing, the Company's participation in the Personal Lines Quota Share may be terminated by the personal lines insurance companies on 60 days written notice in the event the Company becomes insolvent, is placed into receivership, its financial condition is impaired by 50% of the amount of its surplus at the inception of the Personal Lines Quota Share or latest anniversary, whichever is greater, is subject to a change of control, or ceases writing new and renewal business. The personal lines insurance companies also may terminate the agreement on nine months written notice following the effective date of initial public offering or private placement of stock by ACAC or a subsidiary. The Company may terminate its participation in the Personal Lines Quota Share on 60 days written notice in the event the personal lines companies are subject to a change of control, cease writing new and renewal business, effects a reduction in their net retention without the Company's consent or fails to remit premium as required by the terms of the Personal Lines Quota Share. The Personal Lines Quota Share provides that the reinsurers pay a provisional ceding commission equal to 32.5% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment. The ceding commission is subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.5% or less and a minimum of 30.5% if the loss ratio is 64.5% or higher. We

25. Subsequent Event – (continued)

believe that the terms, conditions and pricing of the Personal Lines Quota Share have been determined by arm's length negotiations and reflect current market terms and conditions.

The Company made an initial payment to ACAC for issuance of the Preferred Stock in the amount of approximately $53,000 upon the closing of the Acquisition. In addition, the Company, the Trust and Michael Karfunkel, individually, each shall be required to make its or his proportional share of the deferred payments payable by ACAC to GMAC pursuant to the GMAC Securities Purchase Agreement, which are payable over a period of three years from the date of the closing of the Acquisition, to the extent that ACAC is unable to otherwise provide for such payments. The Company's proportionate share of such deferred payments shall not exceed $22.5 million.

The Special Committee and the Board authorized the Company, in connection with the Investment, to provide to GMAC upon the execution of the GMAC Securities Purchase Agreement a guarantee of Registrant's proportionate share of ACAC's financial obligations to GMAC as set forth in the GMAC Securities Purchase Agreement.

GMAC's consumer property and casualty insurance business is one of the leading writers of automobile coverages through independent agents in the United States. It utilizes a network of 10,500 agents in 12 core markets, as well as exclusive relationships with 23 affinity partners. GMAC's U.S. consumer property and casualty insurance business had a net written premium in excess of $1,000 in 2008 that encompassed all fifty states. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition includes ten statutory insurance companies that write the automobile coverages for GMAC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
AmTrust Financial Services, Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of AmTrust Financial Services, Inc. as of December 31, 2010 and 2009 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmTrust Financial Services, Inc. at December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2011 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

New York, New York
March 15, 2011

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Par Value per Share)

	December 31, 2010	December 31, 2009
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at market value (amortized cost $1,192,844; $1,080,914)	$1,208,813	$1,085,362
Equity securities, available-for-sale, at market value (cost $18,577; $60,639)	17,412	50,355
Short-term investments	32,137	31,265
Equity investments in unconsolidated subsidiaries – related parties	77,136	1,288
Other investments	21,514	12,746
Total investments	1,357,012	1,181,016
Cash and cash equivalents	201,949	233,810
Accrued interest and dividends	7,979	7,617
Premiums receivable, net	727,561	495,871
Note receivable – related party	—	23,224
Reinsurance recoverable (related party $386,932; $293,626)	775,432	643,321
Prepaid reinsurance premium (related party $283,899; $262,128)	484,960	410,553
Prepaid expenses and other assets	163,905	85,108
Federal income tax receivable	10,269	364
Deferred policy acquisition costs	224,671	180,179
Deferred income taxes	—	7,615
Property and equipment, net	30,889	15,858
Goodwill	106,220	53,156
Intangible assets	91,606	62,672
	$4,182,453	$3,400,364
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss expense reserves	$1,263,537	$1,091,944
Unearned premiums	1,024,965	871,779
Ceded reinsurance premiums payable (related party $95,629; $86,165)	266,314	161,197
Reinsurance payable on paid losses	11,343	1,238
Funds held under reinsurance treaties	3,217	690
Securities sold but not yet purchased, at market	8,847	16,315
Securities sold under agreements to repurchase, at contract value	347,617	172,774
Accrued expenses and other current liabilities	195,060	180,325
Deferred income taxes	9,883	—
Derivatives liabilities	—	1,893
Note payable on collateral loan – related party	167,975	167,975
Non-interest bearing note payable – net of unamortized discount of $600; $1,372	14,400	21,128
Term loan	6,667	20,000
Junior subordinated debt	123,714	123,714
Total liabilities	3,443,539	2,830,972
Commitments and contingencies		
Redeemable non-controlling interest	600	—
Stockholders' equity:		
Common stock, $.01 par value; 100,000 shares authorized, 84,314 and 84,179 issued in 2010 and 2009, respectively; 59,565 and 59,314 outstanding in 2010 and 2009, respectively	844	842
Preferred stock, $.01 par value; 10,000 shares authorized	—	—
Additional paid – in capital	548,731	543,977
Treasury stock at cost; 24,750 and 24,866 shares in 2010 and 2009, respectively	(300,489)	(300,889)
Accumulated other comprehensive gain (loss)	(266)	(17,020)
Retained earnings	467,694	342,482
Total AmTrust Financial Services, Inc. equity	716,514	569,392
Non-controlling interest	21,800	—
Total stockholders' equity	738,314	569,392
	$4,182,453	$3,400.364

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)

	Year Ended December 31,		
	2010	2009	2008
Revenues:			
Premium income:			
Net premium written	$ 827,226	$643,426	$ 554,913
Change in unearned premium	(81,567)	(69,544)	(115,816)
Net earned premium	745,659	573,882	439,097
Ceding commission – primarily related party	138,261	113,931	115,474
Service and fee income (related parties $12,322; $8,622; $8,008)	61,747	30,690	28,978
Net investment income	50,517	55,287	60,467
Net realized gain (loss) on investments	5,953	(33,579)	(64,585)
Other revenues	320	—	(2,900)
Total revenues	1,002,457	740,211	576,531
Expenses:			
Loss and loss adjustment expense	471,481	327,771	238,303
Acquisition costs and other underwriting expenses	302,809	244,279	203,747
Other	56,403	22,232	17,318
Total expenses	830,693	594,282	459,368
Income before other income (expense), income taxes and equity in earnings (loss) of unconsolidated subsidiaries	171,764	145,929	117,163
Other income (expenses):			
Foreign currency gain	684	2,459	2,700
Interest expense	(12,902)	(16,884)	(18,277)
Gain on investment in life settlement contracts net of profit commission	11,855	—	—
Total other income (expenses)	(363)	(14,425)	(15,577)
Income before income taxes and equity in earnings (loss) of unconsolidated subsidiaries	171,401	131,504	101,586
Provision for income taxes	49,105	27,459	20,567
Income before equity in earnings (loss) of unconsolidated subsidiaries	122,296	104,045	81,019
Equity in earnings (loss) of unconsolidated subsidiaries – related party	24,044	(822)	(991)
Net income	146,340	103,223	80,028
Net income (loss) attributable to non-controlling interests of subsidiaries	(3,875)	—	2,900
Net income attributable to AmTrust Financial Services, Inc.	$ 142,465	$103,223	$ 82,928
Earnings per common share:			
Basic earnings per share	$ 2.39	$ 1.74	$ 1.38
Diluted earnings per share	$ 2.36	$ 1.72	$ 1.37
Dividends declared per common share	$ 0.29	$ 0.23	$ 0.18
Weighted average common shares outstanding:			
Basic	59,453	59,433	59,991
Diluted	60,346	59,994	60,671
Net realized gain (loss) on investments:			
Total other-than-temporary impairment losses	$ (21,196)	$ (24,778)	$ (52,773)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(21,196)	(24,778)	(52,773)
Other net realized gain (loss) on investments	27,149	(8,801)	(11,812)
Net realized investment gain (loss)	$ 5,953	$ (33,579)	$ (64,585)

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)
Years Ended December 31, 2010, 2009, 2008

	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2007	841	—	$535,123	$(294,671)	$ (31,688)	$180,781	$390,386
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	82,928	82,928
Foreign currency translation	—	—	—	—	(13,006)	—	(13,006)
Unrealized holding loss on investments	—	—	—	—	(71,502)	—	(71,502)
Reclassification adjustment for securities sold during the year	—	—	—	—	10,381	—	10,381
Comprehensive income							8,801
Stock option compensation	—	—	3,136	—	—	—	3,136
Stock repurchase	—	—	—	(132)	—	—	(132)
Exercise of stock options	1	—	1,162	—	—	—	1,163
Common stock dividend	—	—	—	—	—	(10,806)	(10,806)
Balance, December 31, 2008	842	—	539,421	(294,803)	(105,815)	252,903	392,548
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	103,223	103,223
Foreign currency translation	—	—	—	—	4,863	—	4,863
Unrealized holding loss on investments	—	—	—	—	63,370	—	63,370
Reclassification adjustment for securities sold during the year	—	—	—	—	20,562	—	20,562
Comprehensive income							192,018
Stock option compensation	—	—	4,241	—	—	—	4,241
Stock repurchase	—	—	—	(6,086)	—	—	(6,086)
Exercise of stock options	—	—	315	—	—	—	315
Common stock dividend	—	—	—	—	—	(13,644)	(13,644)
Balance, December 31, 2009	842	—	543,977	(300,889)	(17,020)	342,482	569,392
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	146,340	146,340
Foreign currency translation	—	—	—	—	(4,820)	—	(4,820)
Unrealized holding loss on investments	—	—	—	—	8,414	—	8,414
Reclassification adjustment for securities sold during the year	—	—	—	—	13,160	—	13,160
Total comprehensive income							163,094
Non-controlling interest in subsidiaries	—	—	—	—	—	(3,875)	(3,875)
Comprehensive income attributable to AmTrust							159,219
Issuance of restricted stock	—	—	(400)	400	—	—	—
Stock option compensation	—	—	3,386	—	—	—	3,386
Exercise of stock options	2	—	1,768	—	—	—	1,770
Common stock dividend	—	—	—	—	—	(17,253)	(17,253)
Balance, December 31, 2010	844	—	$548,731	$(300,489)	$ (266)	$467,694	$716,514

Non-controlling interest in equity of consolidated Subsidiaries:	
Balance, December 31, 2009	$ —
Capital contribution for Warrantech	6,900
Capital contribution for Tiger Capital, LLC.	11,025
Income attributable to non-controlling interest	3,875
Balance, December 31, 2010	$ 21,800

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	$ 146,340	$ 103,223	$ 82,928
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	18,429	8,791	8,069
Equity (earnings) losses and gain on investment in unconsolidated subsidiaries	(24,044)	822	991
Gain on investment in life settlement contracts	(11,855)	—	—
Realized (gain) loss on marketable securities	(27,149)	8,801	4,825
Non-cash write-down of marketable securities	21,196	24,778	52,773
Discount on notes payable	772	1,067	716
Stock based compensation	3,386	4,241	3,136
Bad debt expense	6,037	4,843	2,804
Foreign currency gain	(684)	(2,459)	(2,700)
Changes in assets – (increase) decrease:			
Premiums and notes receivable	(208,677)	(81,137)	(117,653)
Reinsurance recoverable	(132,111)	(58,499)	(302,880)
Deferred policy acquisition costs, net	(44,492)	(76,214)	(33,062)
Prepaid reinsurance premiums	(74,407)	(38,523)	(127,346)
Prepaid expenses and other assets	(56,316)	(8,696)	(48,399)
Deferred tax asset/liability	3,626	57,673	(40,408)
Changes in liabilities – increase (decrease):			
Reinsurance premium payable	132,238	(1,700)	38,933
Loss and loss expense reserves	171,593	77,885	238,667
Unearned premiums	153,186	111,864	232,077
Funds held under reinsurance treaties	2,527	462	(4,172)
Note payable – related party	—	—	54,747
Accrued expenses and other current liabilities	(61,350)	27,191	21,253
Net cash provided by operating activities	18,245	164,413	65,299
Cash flows from investing activities:			
Purchases of available for sale fixed maturities	(3,711,080)	(498,035)	(600,926)
Purchases of equity securities	(28,321)	(26,893)	(44,834)
Purchases of other investments	(5,284)	(1,398)	(488)
Sales of held to maturity fixed maturities	—	48,881	113,020
Sales of available for sale fixed maturities	3,573,660	350,837	399,088
Sales of equity securities	65,531	21,637	28,441
Sales of other investments	200	—	14,074
Net (purchases) sales of short term investments	(872)	136,580	(19,304)
Investment in ACAC	(53,055)	—	—
Acquisition of Warrantech, net of cash obtained	(9,056)	—	—
Acquisition of Risk Services, net of cash obtained	(10,846)	—	—
Acquisition of subsidiaries, net of cash obtained	6,929	6,545	(55,883)
Acquisition of renewal rights and goodwill	—	(7,904)	(3,204)
Acquisition of and capitalized premiums for life settlement contracts	(14,574)	—	—
Purchase of property and equipment	(14,722)	(5,519)	(4,975)
Note receivable – related party	—	—	(2,000)
Net cash (used in) provided by investing activities	(201,490)	24,731	(176,991)

See accompanying notes to consolidated financial statements.

	Years Ended December 31,		
	2010	2009	2008
Cash flows from financing activities:			
Repurchase agreements, net	174,843	(111,718)	138,089
Proceeds from issuance of term loan	—	—	40,000
Term loan payment	(13,333)	(13,333)	(6,667)
Non-interest bearing note payment	(7,500)	(7,500)	—
Repurchase of common stock	—	(6,086)	(132)
Capital contribution to subsidiary	11,025	—	—
Stock option exercise and other	1,770	315	1,163
Dividends distributed in common stock	(16,647)	(13,088)	(10,200)
Debt financing fees	—	—	(52)
Net cash provided by (used in) financing activities	150,158	(151,410)	162,201
Effect of exchange rate changes on cash	1,226	4,023	(3,793)
Net (decrease) increase in cash and cash equivalents	(31,861)	41,757	46,716
Cash and cash equivalents, beginning year	233,810	192,053	145,337
Cash and cash equivalents, end of year	$201,949	$ 233,810	$192,053
Supplemental Cash Flow Information			
Interest	$ 13,405	$ 14,601	$ 14,428
Debt issuance costs	—	—	77
Income tax payments	33,480	18,802	21,805

Supplemental non-cash financing activity:

In 2008, the Company issued a promissory note to Unitrin in the amount of $30,000 in connection with the acquisition of UBI business. The note is non interest bearing and required four annual principal payments of $7,500 beginning on June 1, 2009 through June 1, 2012. The Company calculated imputed interest of $3,155 based on interest rates available to the Company at the date of acquisition which was 4.5%. Accordingly, the note's carrying balance was adjusted to $26,845 at the acquisition. The Company included $771, $1,067 and $716 of amortized discount on the note in its results of operations for the years ended December 31, 2010, 2009 and 2008, respectively. The note's carrying value at December 31, 2010 and 2009 was $14,400 and $21,128, respectively.

See accompanying notes to consolidated financial statements.

1. Nature of Operations

AmTrust Financial Services, Inc. (the ''Company'') is an insurance holding company formed under the laws of Delaware. Through its wholly-owned subsidiaries, the Company provides specialty property and casualty insurance focusing on workers' compensation and commercial package coverage for small business, specialty risk and extended warranty coverage, and property and casualty coverage for middle market business.

The Company transacts business through eleven insurance company subsidiaries: Technology Insurance Company, Inc. (''TIC''), Rochdale Insurance Company (''RIC''), Wesco Insurance Company (''WIC''), Associated Industries Insurance Company, Inc. (''AIIC''), Milwaukee Casualty Insurance Company (''MCIC''), Security National Insurance Company (''SNIC''), AmTrust Insurance Company of Kansas, Inc. (''AICK'') and AmTrust Lloyd's Insurance Company of Texas (''ALIC''), which are domiciled in New Hampshire, New York, Delaware, Florida, Wisconsin, Texas, Kansas and Texas respectively; and AmTrust International Insurance Ltd. (''AII''), AmTrust International Underwriters Limited (''AIU'') and AmTrust Europe, Ltd. (''AEL''), which are domiciled in Bermuda, Ireland and England, respectively.

2. Significant Accounting Policies

Basis of Reporting — The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries. The Company uses the equity method of accounting for its investment in American Capital Acquisition Corporation (''ACAC'') in which it owns a 21.25% ownership interest. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Premiums — Insurance premiums, other than specialty risk and extended warranty, are recognized as earned on the straight-line basis over the contract period. Insurance premiums on specialty risk and extended warranty are earned based on an estimated program coverage period. These estimates are based on the expected distribution of coverage periods by contract at inception, because a single contract may contain multiple coverage period options, these estimates are revised based on the actual coverage period selected by the insured. Unearned premiums represent the portion of premiums written which is applicable to the unexpired term of the contract or policy in force. Premium adjustments on contracts and audit premiums are based on estimates made over the contract period. Premiums earned but not yet billed to insureds are estimated and accrued, net of related costs. These estimates are subject to the effects of trends in payroll audit adjustments. Although considerable variability is inherent in such estimates, management believes that the accrual for earned but unbilled premiums is reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The Company historically has used a percentage of premium for establishing its allowance for doubtful accounts. The Company reviews its bad debt write-offs at least annually and adjusts its premium percentage as required. Allowance for doubtful accounts were approximately $10,420 and $9,396 at December 31, 2010 and 2009, respectively.

Ceding Commission Revenue — Commissions on reinsurance premiums ceded are earned in a manner consistent with the recognition of the direct acquisition costs of underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured. Certain reinsurance agreements contain provisions whereby the ceding commission rates vary based on the loss experience under the agreements. The Company records ceding commission revenue based on its current estimate of subject losses. The Company records adjustments to the ceding commission revenue in the period that changes in the estimated losses are determined.

2. Significant Accounting Policies – (continued)

Loss and Loss Adjustment Expenses — Loss and loss adjustment expenses (''LAE'') represent the estimated ultimate net costs of all reported and unreported losses incurred through December 31. The reserves for unpaid losses and LAE are estimated using individual case-basis valuations and statistical analyses and are not discounted. Although considerable variability is inherent in the estimates of reserves for losses and LAE, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

Investments — The Company accounts for its investments in accordance with the Financial Accounting Standards Board (''FASB'') Accounting Standards Codification (''ASC'') 320 *Investments — Debt and Equity Securities*, which requires that fixed-maturity and equity securities that have readily determined fair values be segregated into categories based upon the Company's intention for those securities. In accordance with ASC 320, the Company has classified its fixed-maturities and equity securities as available-for-sale. The Company may sell its available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors. Available for sale fixed-maturity securities and equity securities are reported at their estimated fair values based on quoted market prices or a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of comprehensive income in stockholders' equity. Realized gains and losses are determined on the specific identification method.

Quarterly, the Company's Investment Committee (''Committee'') evaluates each security that has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment (''OTTI''). The Company generally considers an investment to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion or more) for over 24 months. In addition, the Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

- the current fair value compared to amortized cost;
- the length of time the security's fair value has been below its amortized cost;
- specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments;
- whether management intends to sell the security and, if not, whether it is not more than likely than not that the Company will be required to sell the security before recovery of its amortized cost basis;
- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings;
- the occurrence of a discrete credit event resulting in the issuer defaulting on material outstanding obligation or the issuer seeking protection under bankruptcy laws; and
- other items, including company management, media exposure, sponsors, marketing and advertising agreements, debt restructurings, regulatory changes, acquisitions and dispositions, pending litigation, distribution agreements and general industry trends.

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. We write down investments immediately that we consider to be impaired based on the above criteria collectively.

2. Significant Accounting Policies – (continued)

Based on guidance in ASC 320-10-65, in the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is not more than likely than not that such holder will be required to sell the debt security before recovery of its amortized cost basis, is required to separate the decline in fair value into (a) the amount representing the credit loss and (b) the amount related to other factors. The amount of total decline in fair value related to the credit loss shall be recognized in earnings as an OTTI with the amount related to other factors recognized in accumulated other comprehensive loss net loss, net of tax. OTTI credit losses result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of the loss realization.

The Company has the following types of investments:

(a) Short-term investments — Short term investments are carried at cost, which approximates fair value, and include investments with maturities between 91 days and less than one year at date of acquisition. As of December 31, 2010 and 2009, short term investments consisted primarily of money market investments.

(b) Fixed maturities and equity securities — Fixed maturities and equity securities (common stocks, mutual funds and non-redeemable preferred stock) are classified as available-for-sale and carried at fair value. Unrealized gains or losses on available-for-sale securities are reported as a component of accumulated other comprehensive income.

(c) Mortgage and asset backed securities — For mortgage and asset backed securities, the Company recognizes income using the retrospective adjustment method based on prepayments and the estimated economic life of the securities. The effective yield reflects actual payments to date plus anticipated future payments.

(d) Limited partnerships — The Company uses the equity method of accounting for investments in limited partnerships in which its ownership interest of the limited partnership enables the Company to influence the operating or financial decisions of the investee company, but the Company's interest in the limited partnership does not require consolidation. The Company's proportionate share of equity in net income of these unconsolidated affiliates is reported in net investment income.

(e) Derivatives and hedging activities — The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio. Derivatives are financial arrangements among two or more parties with returns linked to an underlying equity, debt, commodity, asset, liability, foreign exchange rate or other index. Unless subject to a scope exclusion, the Company carries all derivatives on the consolidated balance sheet at fair value. The changes in fair value of the derivative are presented as a component of operating income. The Company primarily utilizes the following types of derivatives:

- Credit default swap contracts ("CDS"), which, are valued in accordance with the terms of each contract based on the current interest rate spreads and credit risk of the referenced obligation of the underlying issuer and interest accrual through valuation date. Fair values are based on the price of the underlying bond on the valuation date. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract. Such amounts are limited to the total equity of the account;
- Interest rate swaps ("IS"), which are valued in terms of the contract between the Company and the issuer of the swaps, are based on the difference between the stated floating rate of the underlying indebtedness, and a predetermined fixed rate for such indebtedness with the result that the indebtedness carries a net fixed interest rate; and

2. Significant Accounting Policies – (continued)

- Contracts for difference contracts (''CFD''), which, are valued based on the market price of the underlying stock. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract.

(f) Securities sold under agreements to repurchase, at contract value — Securities sold under agreements to repurchase are accounted for as collateralized borrowing transactions and are recorded at their contracted repurchase amounts, plus accrued interest. The Company minimizes the credit risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring exposure and collateral value and generally requiring additional collateral to be deposited with the Company when necessary.

Net investment income consists primarily of interest and dividends less expenses. Interest on fixed maturities, adjusted for any amortization of premium or discount, is recorded as income when earned. Investment expenses are accrued as incurred. Realized investment gains or losses are computed using the specific costs of securities sold, and, if applicable, include write-downs on investments having other-than-temporary decline in value.

Fair Value of Financial Instruments — The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 820 *Fair Value Measurements and Disclosures*. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. Additionally, valuation of fixed maturity investments is more subjective when markets are less liquid due to lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur. Fair values of other financial instruments approximate their carrying values.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in the Level 1 hierarchy. The Company receives the quoted market prices from nationally recognized third-party pricing services (''pricing service''). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value. This pricing method is used, primarily, for fixed maturities. The fair value estimates provided by the pricing service are included in the Level 2 hierarchy. If the Company determines that the fair value estimate provided by the pricing service does not represent fair value or if quoted market prices and an estimate from pricing services are unavailable, the Company produces an estimate of fair value based on dealer quotations of the bid price for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, the Company will then determine if the estimate is Level 2 or Level 3 hierarchy.

Fixed Maturities. The Company utilized a pricing service to estimate fair value measurements for all of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted market prices in active markets. Since fixed maturities other than U.S. treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements using relevant market data, benchmark curves, sector groupings and matrix pricing. The pricing service utilized by the Company has indicated it will produce an estimate of fair value only if there is verifiable information to produce a valuation. As the fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes, the estimates of fair value other than U.S. Treasury securities are included in Level 2 of the hierarchy. U.S. Treasury securities are included in the amount disclosed in

2. Significant Accounting Policies – (continued)

Level 1 as the estimates are based on unadjusted prices. The Company's Level 2 investments include obligations of U.S. government agencies, municipal bonds, corporate debt securities and other mortgage backed securities.

Equity Securities. For public common and preferred stocks, the Company receives estimates from a pricing service that are based on observable market transactions and includes these estimates in Level 1 hierarchy.

Other Investments. The Company has approximately 1% of its investment portfolio, in limited partnerships or hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy. The Company has determined that its investments in Level 3 securities are not material to its financial position or results of operations.

Derivatives. The Company estimates fair value using information provided by the portfolio manager for IS and CDS and the counterparty for CFD and classifies derivatives as Level 3 hierarchy.

Life Settlements — When the Company becomes the owner of a life insurance policy either by direct purchase or following a default on a premium finance loan, the life insurance premium for such policy is accounted for as an investment in life settlements. Investments in life settlements are accounted for in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these investments using the fair value method. Fair value of the investment in policies is determined using unobservable Level 3 inputs and is calculated by performing a net present value calculation of the face amount of the life policies less premiums for the total portfolio. The unobservable Level 3 inputs use new or updated information that affects our assumptions about remaining life expectancy, credit worthiness of the policy issuer, funds needed to maintain the asset until maturity, and discount rates.

Premium Finance Loans — The Company owns certain premium finance loans, in association with the acquisition of life settlement contracts. The Company records the premium finance loans initially at cost. These loans are collateralized by underlying life insurance policies and the Company is obligated to pay premiums on these policies. Interest income is not accrued on loans where management has determined that the borrowers may be unable to meet contractual obligations. Cash receipts on these loans (if any) are generally applied to the principal balance until the remaining balance is considered collectible, at which time interest income may be recognized when received. Upon default of a loan, the Company has the option to acquire the underlying collateral, if the Company believes it has the required economic value.

Warranty Fee Revenue — The Company promotes and markets extended service plans (''ESP'') to consumers through retailers and certain other marketing organizations usually with terms of coverage ranging from one to three years, commencing at the expiration of the manufacturers' warranty, if applicable. The Company generally insures the obligations under ESPs through contractual liability insurance issued by one of its insurance company subsidiaries. Under the terms of service agreements with various retailers, the Company provides for marketing and administrative services related to ESP. These agreements are generally for one-year terms and can be cancelled by either party with thirty days advance notice. The Company recognizes revenue related to promotion, marketing and administration services at the time of the sale of ESP. However, the Company defers a portion of service revenue based upon an estimate of administrative services to be provided in future periods.

Deferred Policy Acquisition Costs — The Company defers commission expenses, premium taxes and assessments as well as certain sales, underwriting and safety costs that vary with and are primarily related to

2. Significant Accounting Policies – (continued)

the acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. The Company may realize deferred policy acquisition costs only if the ratio of loss and loss adjustment expense reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%, the Company could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve. The Company considers anticipated investment income in determining whether a premium deficiency relating to short duration contracts exists. The change in net deferred acquisition costs was $44,492, $76,214 and $33,062 for the years ended December 31, 2010, 2009 and 2008, respectively. The amortization for deferred acquisition costs was $102,085, $73,531 and $70,250 in 2010, 2009 and 2008, respectively.

Reinsurance — Reinsurance premiums, losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums earned and losses incurred ceded to other companies have been recorded as a reduction of premium revenue and losses and LAE. Commissions allowed by reinsurers on business ceded have been recorded as ceding commission revenue. Reinsurance recoverables are reported based on the portion of reserves and paid losses and LAE that are ceded to other companies. The Company remains liable for all loss payments, notwithstanding the failure to collect from the reinsurer.

Assessments — Insurance related assessments are accrued in the period in which they have been incurred. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. The Company is subject to a variety of assessments, such as assessments by state guaranty funds and workers' compensation second injury funds. State guaranty funds assessments are used by state insurance regulators to cover losses of policyholders of insolvent insurance companies and for the operating expenses of such agencies. The Company uses estimated assessment rates in determining the appropriate assessment expense and accrual. The Company uses estimates derived from state regulators and/or National Association of Insurance Commissioners ("NAIC") Tax and Assessments Guidelines. Assessment expense for the years ended December 31, 2010, 2009 and 2008 was approximately $9,220, $8,304 and $14,464, respectively.

Property and Equipment — Property and equipment are recorded at cost. Maintenance and repairs are charged to operations as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, as follows:

Building	40 years
Equipment	5 years
Computer equipment and software	3 to 20 years
Leasehold improvements	Lesser of lease term or 15 years

The Company accounts for its internal use software under ASC 350 *Intangibles — Goodwill and Other*. Accordingly, the Company capitalizes costs of computer software developed or obtained for internal use that is specifically identifiable, has determinable lives and relates to future use.

Goodwill and Intangible Assets — The Company accounts for goodwill and intangible assets in accordance with ASC 350 *Intangibles — Goodwill and Other.* A purchase price paid that is in excess of net assets ("goodwill") arising from a business combination is recorded as an asset, and is not amortized. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statement of operations. Goodwill and intangible assets with an indefinite useful life were carried at $123,994 and $70,924 as of December 31, 2010 and 2009,

2. Significant Accounting Policies – (continued)

respectively. As of December 31, 2010 and 2009, intangible assets with a finite life were valued at $73,832 and $44,902, respectively. For the years ended December 31, 2010, 2009 and 2008, the Company amortized approximately $14,305, $4,023 and $4,106, respectively related to its intangible assets with a finite life.

Income Taxes — The Company joins its domestic subsidiaries in the filing of a consolidated federal income tax return and is party to federal income tax allocation agreements. Under the tax allocation agreements, the Company pays to or receives from its subsidiaries the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return.

Deferred income taxes reflect the impact of ''temporary differences'' between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The deferred tax asset primarily consists of book versus tax differences for premiums earned, loss and loss adjustment expense reserve discounting, policy acquisition costs, earned but unbilled premiums, and unrealized holding gains and losses on marketable equity securities. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income, primarily unrealized investment gains and losses and foreign currency translation gains and losses, are recorded directly to other comprehensive income. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense.

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that we will generate future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. If necessary, the Company establishes a valuation allowance to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

The Company recognizes tax benefits only for tax positions that are more likely than not to be sustained upon examination by taxing authorities. The Company's policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. Tax years 2006 through 2009 are still subject to examination. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

Foreign Currency — The Company assigns functional currencies to its foreign operations, which are generally the currencies of the local operating environment. Foreign currency amounts are remeasured to the functional currency and the resulting foreign exchange gains and losses are reflected in earnings. Functional currency amounts from the Company's foreign operations are then translated into U.S. dollars. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of accumulated other changes in equity from nonowner sources. The foreign currency remeasurement and translation are calculated using current exchange rates for the items reported on the balance sheets and average exchange rates for items recorded in earnings.

Stock Compensation Expense — The Company follows ASC 720 *Compensation — Stock Compensation* and recognizes compensation expense for its share-based payments based on the fair value of the awards. Share-based payments include restricted stock, restricted stock units and stock option grants under the Company's 2005 Equity Incentive Plan and 2010 Omnibus Incentive Plan. ASC 720 requires share-based compensation expense recognized to be based on estimated grant date fair value.

Earnings Per Share — The Company accounts for earnings per share under the two-class method, as described in ASC 260, *Earnings Per Share*. Under the two-class method, earnings for the period are allocated between common stockholders and other stockholders based on their respective rights to receive dividends.

2. Significant Accounting Policies – (continued)

Restricted stock awards granted to certain employees under the Company's 2005 Equity Incentive Plan are considered participating securities as they receive dividends on this stock.

Treasury Stock — The Company accounts for the treasury stock at the repurchase price as a reduction to stockholders' equity.

Concentration and Credit Risk — Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, investments and accounts receivable. Investments are diversified through the types of investments, industry sectors and geographic regions. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and investments. At December 31, 2010 and 2009, the outstanding premiums and notes receivable balance is generally diversified due to the number of entities composing the Company's customer base. To reduce credit risk, the Company performs ongoing evaluations of its customers' financial condition. The Company also has receivables from its reinsurers. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company periodically evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. It is the policy of management to review all outstanding receivables at period end as well as the bad debt write-offs experienced in the past and establish an allowance for doubtful accounts, if deemed necessary.

Non-controlling Interest — The ownership interest in consolidated subsidiaries of non-controlling interests is reflected as non-controlling interest. The Company's consolidation principles would also consolidate any entity in which the Company would be deemed a primary beneficiary. Non-controlling interest expense represents such non-controlling interests' in the earnings of that entity. All significant transactions and account balances between the Company and its subsidiaries were eliminated during consolidation.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions, which include the reserves for losses and loss adjustment expenses, are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with the recognition and amortization of deferred policy acquisition costs, the determination of fair value of invested assets and related impairments, and the determination of goodwill and intangible impairments require considerable judgment by management. On an on-going basis, management reevaluates its assumptions and the methods of calculating its estimates. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

Reclassifications — Certain accounts in the prior years' consolidated financial statements have been reclassified for comparative purposes to conform to the current year's presentation. This did not have any impact on the net income of the Company.

Recent Accounting Pronouncements — In January 2010, the FASB issued Accounting Standards Update (''ASU'') No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements*. This update requires additional disclosures about fair value measurements, including disclosure regarding the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for the transfers. For fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances which includes gains, losses, purchases, sales, issuances and settlements disclosed separately for the period is required. Additionally, fair value measurement disclosures will need disaggregation for each class of assets and liabilities. The requirements are effective for interim and annual reporting periods beginning after December 15, 2009, except

2. Significant Accounting Policies – (continued)

for the disclosure about purchases, sales, issuances and settlements, which is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the guidance as of January 1, 2010 and the revised guidance did not have an impact on its results of operations, financial position or liquidity.

In February 2010, the FASB issued a new accounting standard related to subsequent events, which amends the earlier FASB standard to address certain implementation issues related to an entity's requirement to perform and disclose subsequent events procedures. The new standard requires SEC filers to evaluate subsequent events through the date the financial statements are issued and exempts SEC filers from disclosing the date through which subsequent events have been evaluated. The Company adopted the new standard which became effective for the interim reporting period ended March 31, 2010. The adoption of the new standard did not have a material impact on the Company's consolidated financial statements.

In June 2008, the FASB issued new guidance on determining whether instruments granted in share-based payment transactions are participating securities. The new guidance, which is now part of ASC 260, *Earnings per Share,* clarifies that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method. This new guidance was effective for financial statements issued for fiscal years that began after December 15, 2008 and required all presented prior-period earnings per share data to be adjusted retrospectively. The Company issued participating securities during 2010 and therefore this guidance was applicable to the Company beginning in the period ended June 30, 2010. The guidance did not have a material impact on the Company's results of operations, financial position or liquidity.

On January 1, 2010, the Company adopted FASB ASU 2009-16 and ASU 2009-17, codified within ASC 860 and ASC 810, respectively. Under ASC 860, the concept of a qualifying special-purpose entity (''QSPE'') has been eliminated and accordingly, any existing QSPE must be evaluated for consolidation. The appropriateness of derecognition is evaluated based on whether or not the transferor has surrendered control of the transferred assets. The evaluation must consider any continuing involvement by the transferor. The Company does not have any entities that were considered a QSPE under guidance prior to ASC 860. ASC 810 clarifies the application of consolidation accounting for entities for which the controlling financial interest might not be solely identified through voting rights. The guidance under ASC 810 still requires a reporting entity to perform an analysis to determine if its variable interests give it a controlling financial interest in a variable interest entity (''VIE''). The primary beneficiary of a VIE is the entity having both of the following:

- the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and
- the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

In addition, a reporting entity must assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining if it has the power to direct the activities of the VIE that most significantly affect the entity's economic performance. The concept of a reconsideration event is retained and an ongoing reassessment of whether a reporting entity is the primary beneficiary of a VIE is required. Specifically, the list of reconsideration events includes a change in facts and circumstances where the holders of an equity investment at risk as a group lose the power from voting or similar rights to direct the activities of the entity that most significantly affect the entity's economic performance. In addition, a troubled debt-restructuring is now defined as a reconsideration event. Both statements expand required disclosures and are effective as of the beginning of the first annual reporting period that begins after November 15, 2009. The adoption of ASC 860 and ASC 810 required the Company to consolidate Tiger Capital LLC (See Note 13. ''Investment in Life Settlements'') upon its formation during the year ended December 31, 2010.

2. Significant Accounting Policies – (continued)

Prospective Accounting Literature

In October 2010, the FASB issued ASU No. 2010-26, "*Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*" ("ASU 2010-26"). ASU 2010-26 modifies the types of costs that may be deferred, allowing insurance companies to only defer costs directly related to a successful contract acquisition or renewal. These costs include incremental direct costs of successful contracts, the portion of employees' salaries and benefits related to time spent on acquisition activities for successful contracts and other costs incurred in the acquisition of a contract. Additional disclosure of the type of acquisition costs capitalized is also required. ASU 2010-26 is effective on prospective basis for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted as of the beginning of a company's annual period. We are currently evaluating the impact of the adoption of ASU 2010-26 on our financial position.

In December 2010, the FASB issued a new standard which modifies step 1 of the goodwill impairment test for entities with a zero or negative carrying value to require entities to assess, considering qualitative factors, whether it is more likely than not that a goodwill impairment exists. If an entity concludes that it is more likely than not that goodwill impairment exists, the entity must perform step 2 of the goodwill impairment test. The new standard allows an entity to use either the equity or the enterprise valuation premise to determine the carrying amount of a reporting unit. The new standard will be effective for impairment tests performed during fiscal years and interim periods within those years that begin after December 15, 2010. The adoption of the new standard will not have a material impact on the Company's consolidated financial statements.

3. Investments

(a) Available-for-Sale Securities

The amortized cost, estimated fair value and gross unrealized appreciation and depreciation of fixed and equity securities are presented in the tables below:

(Amounts in Thousands) As of December 31, 2010	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 7,175	$ 107	$ (245)	$ 7,037
Common stock	11,402	1,224	(2,251)	10,375
U.S. treasury securities	82,279	1,634	(1,466)	82,447
U.S. government agencies	6,483	679	—	7,162
Municipal bonds	67,396	438	(1,158)	66,676
Corporate bonds:				
Finance	411,532	9,756	(15,276)	406,012
Industrial	47,828	1,970	(45)	49,753
Utilities	36,375	1,204	(268)	37,311
Commercial mortgage backed securities	1,970	106	—	2,076
Residential mortgage backed securities:				
Agency backed	528,683	18,653	(1,238)	546,098
Non-agency backed	7,779	817	(5)	8,591
Asset-backed securities	2,519	168	—	2,687
	$1,211,421	$36,756	$(21,952)	$1,226,225

3. Investments – (continued)

(Amounts in Thousands) As of December 31, 2009	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 5,996	$ —	$ (886)	$ 5,110
Common stock	54,642	4,391	(13,788)	45,245
U.S. treasury securities	124,566	383	(806)	124,143
U.S. government agencies	47,030	524	(130)	47,424
Municipal bonds	26,580	931	(243)	27,268
Corporate bonds:				
Finance	338,746	9,560	(24,384)	323,922
Industrial	47,986	2,770	(9)	50,747
Utilities	13,866	977	(326)	14,517
Commercial mortgage backed securities	3,295	64	—	3,359
Residential mortgage backed securities:				
Agency backed	467,555	14,600	(424)	481,731
Non-agency backed	7,808	835	(11)	8,632
Asset-backed securities	3,482	198	(61)	3,619
	$1,141,552	$35,233	$(41,068)	$1,135,717

Proceeds from the sale of investments in available-for-sale securities during the years ended December 31, 2010, 2009, and 2008 were approximately $3,639,191, $421,355, and $427,529, respectively.

A summary of the Company's available-for-sale fixed securities as of December 31, 2010, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in Thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 5,153	$ 5,241
Due after one through five years	102,536	103,222
Due after five through ten years	451,481	450,164
Due after ten years	92,723	90,734
Mortgage backed securities	540,951	559,452
Total fixed maturities	$1,192,844	$1,208,813

(b) Investment Income

Net investment income for the years ended December 31, 2010, 2009 and 2008 was derived from the following sources:

(Amounts in Thousands)	2010	2009	2008
Fixed maturity securities	$43,789	$47,675	$48,919
Equity securities	702	2,084	934
Cash and short term investments	4,042	4,173	16,302
Interest on note receivable – related party	2,612	2,967	3,170
	51,145	56,899	69,325
Less: Investment expenses and interest expense on securities sold under agreement to repurchase	(628)	(1,612)	(8,858)
	$50,517	$55,287	$60,467

3. Investments – (continued)

(c) Other Than Temporary Impairment

OTTI charges of our fixed-maturities and equity securities for the years ended December 31, 2010, 2009 and 2008 are presented in the table below:

(Amounts in Thousands) Year Ended December 31,	2010	2009	2008
Equity securities recognized in earnings	$10,656	$20,639	$21,384
Fixed maturity securities recognized in earnings	10,540	4,139	31,389
	$21,196	$24,778	$52,773

The tables below summarize the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized loss position as of December 31, 2010 and 2009:

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) December 31, 2010	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$ 1,291	$ (208)	1	$ 7,148	$ (2,288)	54	$ 8,439	$ (2,496)
U.S. treasury securities	49,390	(1,466)	6	—	—	—	49,390	(1,466)
Municipal bonds	50,301	(1,147)	14	1,204	(11)	1	51,505	(1,158)
Corporate bonds:								
Finance	79,451	(1,700)	16	160,126	(13,576)	31	239,577	(15,276)
Industrial	6,319	(45)	1	—	—	—	6,319	(45)
Utilities	1,981	(106)	1	11,635	(162)	2	13,616	(268)
Residential mortgage backed securities:								
Agency backed	150,575	(1,238)	3	—	—	—	150,575	(1,238)
Non-agency backed	—	—	—	26	(5)	1	26	(5)
Total temporarily impaired	$339,308	$(5,910)	42	$180,139	$(16,042)	89	$519,447	$(21,952)

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) December 31, 2009	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$ 8,540	$(2,934)	13	$ 23,295	$(11,740)	106	$ 31,835	$(14,674)
U.S. treasury securities	110,393	(748)	26	802	(58)	1	111,195	(806)
U.S. government agencies	40,337	(130)	7	—	—	—	40,337	(130)
Municipal bonds	9,538	(239)	1	347	(4)	1	9,885	(243)
Corporate bonds:								
Finance	33,777	(572)	16	165,773	(23,812)	36	199,550	(24,384)
Industrial	4,986	(5)	1	496	(4)	1	5,482	(9)
Utilities	1,370	(42)	1	1,801	(284)	2	3,171	(326)
Residential mortgage backed securities:								
Agency backed	22,935	(107)	2	105,346	(317)	9	128,281	(424)
Non-agency backed	—	—	—	22	(11)	1	22	(11)
Asset-backed securities	—	—	—	231	(61)	1	231	(61)
Total temporarily impaired	$231,876	$(4,777)	67	$298,113	$(36,291)	158	$529,989	$(41,068)

3. Investments – (continued)

There are 131 and 225 securities at December 31, 2010 and 2009, respectively, that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company's cost basis.

(d) Realized Gains and Losses

The tables below indicate the gross realized gains and losses for the years ended December 31, 2010, 2009 and 2008.

(Amounts in Thousands) Year Ended December 31, 2010	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$17,860	$ (4,353)	$ 13,507
Equity securities	19,656	(6,047)	13,609
Derivatives	33	—	33
Write-down of fixed maturity securities	—	(10,540)	(10,540)
Write-down of equity securities	—	(10,656)	(10,656)
	$37,549	$(31,596)	$ 5,953

(Amounts in Thousands) Year Ended December 31, 2009	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 6,421	$ (5,536)	$ 885
Equity securities	5,617	(10,734)	(5,117)
Derivatives	—	(4,569)	(4,569)
Write-down of fixed maturity securities	—	(4,429)	(4,429)
Write-down of equity securities	—	(20,349)	(20,349)
	$12,038	$(45,617)	$(33,579)

(Amounts in Thousands) Year Ended December 31, 2008	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ —	$(10,585)	$(10,585)
Equity securities	2,873	(2,034)	839
Derivatives	533	(2,599)	(2,066)
Write-down of fixed maturity securities	—	(31,389)	(31,389)
Write-down of equity securities	—	(21,384)	(21,384)
	$3,406	$(67,991)	$(64,585)

(e) Unrealized Gains and Losses

The net unrealized gain (loss) on available-for-sale securities were as follows:

(Amounts in Thousands) Year Ended December 31,	2010	2009	2008
Fixed maturity securities	$15,969	$ 4,444	$ (78,403)
Equity securities	(1,165)	(10,283)	(55,262)
Total net unrealized gain (loss)	14,804	(5,839)	(133,665)
Deferred income tax benefit (expense)	(5,181)	2,044	46,783
Net unrealized losses, net of deferred income tax	9,623	(3,795)	(86,882)
(Increase) decrease in net unrealized losses, net of deferred income tax	$13,418	$ 83,087	$ (56,786)

3. Investments – (continued)

The net unrealized losses on held-to-maturity fixed maturity securities were as follows:

(Amounts in Thousands) Year Ended December 31,	2010	2009	2008
Net unrealized gains	$—	$—	$1,361
Increase in net unrealized gains	—	—	601

(f) Derivatives

The following table presents the notional amounts by remaining maturity of the Company's Interest Rate Swaps as of December 31, 2010:

	Remaining Life of Notional Amount(1)				
(Amounts in Thousands)	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years	Total
Interest rate swap	$6,667	$—	$—	$—	$6,667

(1) Notional amount is not representative of either market risk or credit risk and is not recorded in the consolidated balance sheet.

The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. The Company records changes in valuation on its derivative positions not designated as a hedge as a component of net realized gains and losses. The Company records changes in valuation on its hedge positions as a component of other comprehensive income. As of December 31, 2010, the Company did not have any derivatives designated as a hedge. Additionally, the Company records changes in valuation on its interest rate swap related to its term loan (See ''Note 11. Debt'') as a component of interest expense.

(g) Other

Securities sold but not yet purchased, represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value and as of December 31, 2010 and 2009 was $8,483 and $15,360 for corporate bonds, respectively, and $364 and $955 for equity securities, respectively. These transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, may exceed the amount reflected at December 31, 2010. Substantially all securities owned are pledged to the clearing broker to sell or repledge the securities to others subject to certain limitations.

The Company entered into repurchase agreements, which are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities, that it invests or holds in short term or fixed income securities. As of December 31, 2010 there were $347,617 principal amount outstanding at interest rates between 0.32% and 0.4%. Interest expense associated with these repurchase agreements for the year ended December 31, 2010 was $610 of which $63 was accrued as of December 31, 2010. The Company has $351,211 of collateral pledged in support of these agreements. As of December 31, 2009 there were $172,774 principal amount outstanding at interest rates between 0.25% and 0.3%. Interest expense associated with these repurchase agreements for the year ended December 31, 2009 was $1,612 of which $23 was accrued as of December 31, 2009. The Company had $176,494 of collateral pledged in support of these agreements. Interest expense related to repurchase agreements is recorded as a component of investment income.

3. Investments – (continued)

At December 31, 2010 and 2009, the Company, through its domestic insurance subsidiaries, currently has assets with a fair value of $38,579 and $32,723, respectively on deposit with various state departments of insurance. These deposits are held for benefits of insurance company policyholders.

4. Fair Value of Financial Instruments

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of December 31, 2010 and 2009:

(Amounts in Thousands)	Total	Level 1	Level 2	Level 3
As of December 31, 2010				
Assets:				
U.S. treasury securities	$ 82,447	$ 82,447	$ —	$ —
U.S. government securities	7,162	—	7,162	—
Municipal bonds	66,676	—	66,676	—
Corporate bonds and other bonds:				
Finance	406,012	—	406,012	—
Industrial	49,753	—	49,753	—
Utilities	37,311	—	37,311	—
Commercial mortgage backed securities	2,076	—	2,076	—
Residential mortgage backed securities:				
Agency backed	546,098	—	546,098	—
Non-agency backed	8,591	—	8,591	—
Asset-backed securities	2,687	—	2,687	—
Equity securities	17,412	17,412	—	—
Short term investments	32,137	32,137	—	—
Other investments	21,514	—	—	21,514
Life settlement contracts	22,155	—	—	22,155
	$1,302,031	$131,996	$1,126,366	$43,669
Liabilities:				
Equity securities sold but not yet purchased, market	$ 364	$ 364	$ —	$ —
Fixed maturity securities sold but not yet purchased, market	8,483	—	8,483	—
Securities sold under agreements to repurchase, at contract value	347,617	—	347,617	—
	$ 356,464	$ 364	$ 356,100	$ —

4. Fair Value of Financial Instruments – (continued)

(Amounts in Thousands)	Total	Level 1	Level 2	Level 3
As of December 31, 2009				
Assets:				
U.S treasury securities	$ 124,143	$124,143	$ —	$ —
U.S. government securities	47,424	—	47,424	—
Municipal bonds	27,268	—	27,268	—
Corporate bonds and other bonds:				
Finance	323,922	—	323,922	—
Industrial	50,747	—	50,747	—
Utilities	14,517	—	14,517	—
Commercial mortgage backed securities	3,359	—	3,359	—
Residential mortgage backed securities:				
Agency backed	481,731	—	481,731	—
Non-agency backed	8,632	—	8,632	—
Asset-backed securities	3,619	—	3,619	—
Equity securities	50,355	50,355	—	—
Short term investments	31,265	31,265	—	—
Other investments	14,034	—	—	14,034
	$1,181,016	$205,763	$961,219	$14,034
Liabilities:				
Equity securities sold but not yet purchased, market	$ 955	$ 955	$ —	$ —
Fixed maturity securities sold but not yet purchased, market	15,360	—	15,360	—
Securities sold under agreements to repurchase, at contract value	172,774	—	172,774	—
Derivatives	1,893	—	—	1,893
	$ 190,982	$ 955	$188,134	$ 1,893

The Company had no transfers between levels during 2010 and 2009.

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets for the years ended December 31, 2010 and 2009:

(Amounts in Thousands)	Balance as of January 1, 2010	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2010
Other investments	$14,034	$ 283	$2,113	$ 5,284	$ (200)	$ —	$21,514
Life settlement contracts	—	16,853	—	5,302	—	—	22,155
Derivatives	(1,893)	33	—	—	1,860	—	—
Total	$12,141	$17,169	$2,113	$10,586	$1,660	$ —	$43,669

(Amounts in Thousands)	Balance as of January 1, 2009	Net loss	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2009
Available for sale fixed securities	$ 7,895	$ —	$ —	$ —	$(7,895)	$ —	$ —
Other investments	13,457	(39)	2,544	165	(2,093)	—	14,034
Derivatives	(1,439)	(4,569)	—	—	4,115	—	(1,893)
Total	$19,913	$(4,608)	$2,544	$165	$(5,873)	$ —	$12,141

4. Fair Value of Financial Instruments – (continued)

The Company uses the following methods and assumptions in estimating its fair value disclosures for financial instruments:

- *Equity and Fixed Income Investments:* Fair value disclosures for these investments are disclosed above elsewhere in this note. The carrying values of cash, short term investments and investment income accrued approximate their fair values;
- *Premiums Receivable:* The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values due to the short term nature of the asset;
- *Subordinated Debentures and Debt:* The carrying values reported in the accompanying balance sheets for these financial instruments approximate fair value. Fair value was estimated using projected cash flows, discounted at rates currently being offered for similar notes.

5. Acquisitions

Warrantech

During February of 2007, the Company participated with H.I.G. Capital, a Miami-based private equity firm, in financing H.I.G. Capital's acquisition of Warrantech Corporation and its subsidiaries (''Warrantech'') in a cash merger. The Company contributed $3,850 for a 27% equity interest (in the form of preferred units) in WT Acquisition Holdings, LLC, the parent company of Warrantech. Warrantech is a Bedford, Texas-based developer, marketer and third party administrator of service contracts and aftermarket warranty products that largely serves the consumer products and automotive industries in the U.S. and Canada. Additionally in 2007, the Company provided Warrantech with a $20,000 senior secured note due January 31, 2012 (note receivable — related party). Interest on the note was payable monthly at a rate of 15% per annum and consisted of a cash component at 11% per annum and 4% per annum for the issuance of additional notes in a principal amount equal to the interest not paid in cash on such date.

In August 2010, the Company, through its wholly-owned subsidiary AMT Warranty Corp., acquired 100% of the issued and outstanding capital stock of Warrantech from WT Acquisition Holdings, LLC for approximately $7,500 in cash and an earnout payment to the sellers of a minimum of $2,000 and a maximum and $3,000 based on AMT Warranty Corp.'s EBITDA over the three-year period from January 1, 2011 through December 31, 2013.

Immediately prior to the consummation of this transaction, WT Acquisition Holdings, LLC redeemed the Company's preferred units that had represented the Company's 27% equity interest in that entity. In addition, immediately following the transaction, AMT Warranty Corp. was recapitalized and the Company contributed its note receivable from Warrantech in the approximate amount of $24,100 to AMT Warranty Corp. in exchange for Series A preferred stock, par value $0.01 per share (the ''Series A Preferred Stock''), of AMT Warranty Corp. valued at $24,100. The Company also received additional shares of Series A Preferred Stock such that the total value of its 100% preferred share ownership in AMT Warranty Corp. is equivalent to $50,700. Lastly, AMT Warranty Corp. issued 20% of its issued and outstanding common stock to the Chairman of Warrantech, which had a fair value of $6,900 as determined using both a market and an income approach. Given its preference position, absent the Company's waiver, the Company will be paid distributions on its Series A Preferred Stock before any common shareholder would be entitled to a distribution on the common stock.

As a result, the ultimate acquisition price of Warrantech was $42,645 and the Company recorded goodwill and intangible assets of approximately $48,343 and $29,600, respectively. Acquisition related costs related to the deal were less then $100. The intangible assets consisted of trademarks, agency relationships and non-compete agreements, which had estimated lives of between 3 and 18 years. The change in the preliminary amount of goodwill recorded during the third quarter of 2010 resulted primarily from the

5. Acquisitions – (continued)

determination of the fair value of Warrantech's deferred tax asset and minority interest. The results of operations from Warrantech, which are included in the Company's Specialty Risk and Extended Warranty segment as a component of service and fee income, have been recorded since the acquisition date and were approximately $17,400 for the year ended December 31, 2010.

The finalized purchase price allocation as of the date of acquisition is as follows:

(Amounts in Thousands)	
Assets	
Accounts receivable	$ 15,232
Deferred taxes	7,619
Property and equipment	2,123
Other assets	10,752
Goodwill	48,343
Intangible assets	29,600
Total assets	$113,669
Liabilities	
Premium payable	$ 35,717
Deferred revenue	11,293
Accrued expenses and other current liabilities	24,014
Total liabilities	$ 71,024
Total purchase price	$ 42,645

Risk Services

During June 2010, the Company completed the acquisition of eight direct and indirect subsidiaries of RS Acquisition Holdings Corp., including Risk Services, LLC and PBOA, Inc. (collectively, ''Risk Services''). The entities acquired include various risk retention and captive management companies, brokering entities and workers' compensation servicing entities. The acquired companies are held in a newly created entity, RS Acquisition Holdco, LLC. The Risk Services entities have offices in Florida, Vermont, Nevada and the District of Columbia and are broadly licensed.

The Company has a majority ownership interest (80%) in Risk Acquisition Holdco, LLC, for which the Company's total consideration was $11,700. Acquisition costs associated with the acquisition were approximately $200. As part of the purchase agreement, the non-controlling interest has the option under certain circumstances to require the Company to purchase the remaining ownership interest (20%) of Risk Services. In accordance with FASB ASC Topic 480, *Distinguishing Liabilities from Equity*, and FASB ASC Topic 815, *Derivatives and Hedging,* the Company has classified the remaining 20% ownership interest of Risk Services as mezzanine equity on the Consolidated Balance Sheet.

The Company has included approximately $7,400 in the results of operations, as a component of service and fee income, since the acquisition date, in its Small Commercial Business segment. In accordance with FASB ASC 805, *Business Combinations,* the Company's total consideration paid for Risk Services was $11,700, which included cash of $11,100 and a value of $600 that was assigned for the redeemable non-controlling interest as determined using both a market and an income approach. The Company assigned a value of approximately $5,000 to intangible assets and $3,500 to goodwill. The intangible assets consisted of tradenames, customer relationships, renewal rights and non-compete agreements and have finite lives ranging from 4 years to 17 years.

5. Acquisitions – (continued)

CyberComp

In September 2009, the Company acquired from subsidiaries of Swiss Re America Holding Corp. (''Swiss Re'') access to the distribution network and renewal rights to CyberComp (''CyberComp''), a Swiss Re web-based platform providing workers' compensation insurance to the small to medium-sized employer market. CyberComp operated in 26 states and distributed policies through a network of 13 regional wholesale agencies and over 600 retail agents. The purchase price is equal to a percentage of gross written premium through the third anniversary of the closing of the transaction. Upon closing, the Company made an initial payment to Swiss Re in the amount of $3,000 which represents an advance on the purchase price and the minimum amount payable pursuant to the purchase agreement. In accordance with FASB ASC 805, the Company recorded a purchase price of $6,300 which consisted of $2,800 of renewal rights, $2,300 of distribution networks, $700 of trademarks and $500 of goodwill as part of the Small Commercial Business segment. The intangible assets were determined to have useful lives of between two years and 15 years. The Company produced approximately $43,600 and $17,700 of gross written premium in 2010 and 2009, respectively, as a result of this transaction.

ACHL

During the three months ended March 31, 2009, the Company, through a subsidiary, acquired all the issued and outstanding stock of Imagine Captive Holdings Limited (''ICHL''), a Luxembourg holding company, which owned all of the issued and outstanding stock of Imagine Re Beta SA, Imagine Re (Luxembourg) 2007 SA and Imagine Re SA (collectively, the ''Captives''), each of which is a Luxembourg domiciled captive insurance company, from Imagine Finance SARL (''SARL''). ICHL subsequently changed its name to AmTrust Captive Holdings Limited (''ACHL'') and the Captives changed their names to AmTrust Re Beta, AmTrust Re 2007 (Luxembourg) and AmTrust Captive Solutions Limited, respectively. The purchase price of ACHL was $20, which represented the capital of ACHL. In accordance with FASB ASC 805-10, the Company recorded approximately $12,500 of cash, $66,500 of receivables and $79,000 of loss reserves. ACHL is included in the Company's Specialty Risk and Extended Warranty segment.

Additionally, the Captives had previously entered into a stop loss agreement with Imagine Insurance Company Limited (''Imagine'') by which Imagine agreed to cede certain losses to the Captives. Concurrently, with the Company's purchase of ACHL, the Company, through AmTrust International Insurance, Ltd. (''AII''), entered into a novation agreement by which AII assumed all of Imagine's rights and obligations under the stop loss agreement.

In October 2009, ACHL acquired all the issued and outstanding stock of Watt Re, a Luxembourg domiciled captive insurance company, from CREOS LUXEMBOURG S.A. (formerly CEGEDEL S.A.) and ENOVOUS Luxembourg S.A. (formerly CEGEDEL PARTICIPATIONS S.A.). Watt Re subsequently changed its name to AmTrust Re Gamma. The purchase price of Watt Re was approximately $30,200. The Company recorded approximately $34,500 of cash, intangible assets of $5,500 and a deferred tax liability of approximately $9,800. The Company assigned a life of three years to the intangible assets.

In December 2009, ACHL acquired all the issued and outstanding stock of Group 4 Falck Reinsurance S.A., a Luxembourg domiciled captive insurance company, from Group 4 Securitas (International) B.V. Group 4 Falck Reinsurance S.A. subsequently changed its name to AmTrust Re Omega. The purchase price of Group 4 Falck Reinsurance S.A. was approximately $22,800. The Company recorded approximately $25,100 of cash, intangible assets of $2,200 and a deferred tax liability of $4,500. The Company assigned a life of three years to the intangible assets.

In May 2010, ACHL acquired all the issued and outstanding stock of Euro International Reinsurance S.A., a Luxembourg domiciled captive insurance company, from TALANX AG. Euro International Reinsurance S.A. subsequently changed its name to AmTrust Re Delta. The purchase price of Euro

5. Acquisitions – (continued)

International Reinsurance S.A. was approximately $58,300. The Company recorded approximately $65,700 of cash, intangible assets of $8,600 and a deferred tax liability of $16,000. The Company assigned a life of two years to the intangible assets.

Through a series of mergers that took place between June 2010 and the end of the year, AmTrust Re Beta and AmTrust Re Gamma merged into AmTrust Re Omega and AmTrust Re 2007 (Luxembourg), respectively, followed by AmTrust Re Omega merging into AmTrust Re 2007 (Luxembourg). As of December 31, 2010, ACHL held all of the issued and outstanding stock of the three remaining Captives: AmTrust Captive Solutions Limited, AmTrust Re 2007 (Luxembourg) and AmTrust Re Delta.

The aforementioned ACHL transactions allow the Company to obtain the benefit of the Captives' capital and utilization of their existing and future loss reserves through a series of reinsurance arrangements with a subsidiary of the Company.

6. Intangible Assets and Goodwill

The composition of the intangible assets is summarized as follows:

(Amounts in Thousands) As of December 31, 2010	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$106,220	$ —	$106,220	Indefinite Life
Renewal rights	7,780	2,373	5,407	7 – 17 years
Covenant not to compete	7,756	2,545	5,211	3 – 9 years
Distribution networks	57,817	10,138	47,679	10 – 20 years
Software	2,304	2,006	298	20 years
Customer relationships	6,395	3,439	2,956	5 – 10 years
Trademarks	3,820	1,176	2,644	2 – 15 years
Trademarks	3,433	—	3,433	Indefinite Life
License	408	16	392	50 years
Licenses	14,340	—	14,340	Indefinite Life
Contractual use rights	16,309	7,063	9,246	2 – 3 years
Total	$226,582	$28,756	$197,826	12 years average

(Amounts in Thousands) As of December 31, 2009	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$ 53,156	$ —	$ 53,156	Indefinite Life
Renewal rights	4,180	1,348	2,832	7 years
Covenant not to compete	1,686	1,274	412	1 – 9 years
Distribution networks	37,217	7,305	29,912	10 – 20 years
Software	2,302	1,985	317	3 – 20 years
Customer relationships	5,163	2,440	2,723	5 – 10 years
Trademarks	700	88	612	2 years
Trademarks	3,428	—	3,428	Indefinite Life
License	408	10	398	50 years
Licenses	14,340	—	14,340	Indefinite Life
Contractual use rights	7,698	—	7,698	3 years
Total	$130,278	$14,450	$115,828	12 years average

6. Intangible Assets and Goodwill – (continued)

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2010 and 2009 are as follows:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Total
Balance as of January 1, 2010	$42,816	$ 5,020	$5,320	$ 53,156
Goodwill additions	4,872	48,342	—	53,214
Foreign currency translation	—	(150)	—	(150)
Balance as of December 31, 2010	$47,688	$53,212	$5,320	$106,220

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Total
Balance as of January 1, 2009	$44,440	$3,847	$1,507	$49,794
Goodwill additions	997	594	3,813	5,404
Deferred tax adjustment	(2,621)	—	—	(2,621)
Foreign currency translation	—	579	—	579
Balance as of December 31, 2009	$42,816	$5,020	$5,320	$53,156

Goodwill acquired during 2010 resulted from acquisitions or resolution of contingent consideration matters.

Goodwill and intangible assets are subject to annual impairment testing. No impairment was recorded during the years ended December 31, 2010, 2009 and 2008. Finite lived intangible assets are amortized under the straight-line method, except for renewal rights, for which the Company amortizes them using a 125% accelerated method and contractual use rights which are amortized based on actual use. Amortization expense for 2010, 2009 and 2008 was $14,305, $4,023 and $4,106, respectively. The estimated aggregate amortization expense for each of the next five years is:

(Amounts in Thousands)	
2011	$17,832
2012	10,396
2013	7,385
2014	4,557
2015	4,238

7. Property and Equipment, Net

(Amounts in Thousands) As of December 31,	2010	2009
Land	$ 2,604	$ 881
Building	14,658	6,931
Internal use software	18,002	9,828
Computer equipment	10,114	7,873
Other equipment	3,829	3,044
Leasehold improvements	1,339	919
	50,546	29,476
Less: Accumulated depreciation and amortization	(19,657)	(13,618)
	$ 30,889	$ 15,858

7. Property and Equipment, Net – (continued)

Depreciation expense was $6,039, $4,768 and $3,963 for the years ended December 31, 2010, 2009 and 2008.

8. Accrued Expenses and Other Liabilities

(Amounts in Thousands) As of December 31,	2010	2009
Premium taxes, assessments and surcharges payable	$ 63,557	$ 66,826
Deferred warranty revenue	32,410	11,472
Commissions payable	23,114	24,512
Premiums collected in advance	19,343	5,169
Other accrued expenses	19,020	17,896
Claims payable	14,655	4,812
Due to sellers	9,119	5,228
Accounts payable	7,338	6,974
Dividends payable	4,768	3,559
Accrued interest	1,736	3,907
Securities owned not yet paid	—	29,968
	$195,060	$180,323

9. Liability for Unpaid Loss and LAE

The following table provides a reconciliation of the beginning and ending balances for unpaid losses and LAE, reported in the accompanying consolidated balance sheets as of December 31, 2010 and 2009:

(Amounts in Thousands)	2010	2009	2008
Unpaid losses and LAE, gross of related reinsurance recoverables at beginning of year	$1,091,944	$1,014,059	$ 775,392
Less: Reinsurance recoverables at beginning of year	561,874	504,404	258,028
Net balance, beginning of year	530,070	509,655	517,364
Incurred related to:			
Current year	463,535	332,598	238,847
Prior year	7,946	(4,827)	(544)
Total incurred losses during the year	471,481	327,771	238,303
Paid losses and LAE related to:			
Current year	(222,593)	(203,210)	(144,272
Prior year	(187,012)	(109,872)	(112,893)
Total payments for losses and LAE	(409,605)	(313,082)	(257,165)
Commuted loss reserves	1,350	4,612	—
Net balance, December 31	593,296	528,956	498,502
Acquired outstanding loss and loss adjustment reserve	—	—	15,173
Effect of foreign exchange rates	(636)	1,114	(4,020)
Plus reinsurance recoverables at end of year	670,877	561,874	504,404
Unpaid losses and LAE, gross of related reinsurance recoverables at end of year	$1,263,537	$1,091,944	$1,014,059

9. Liability for Unpaid Loss and LAE – (continued)

In 2010, the Company's liabilities for unpaid losses and LAE attributable to prior years increased by $7,946 as result of unfavorable loss development, in its Specialty Program segment due to higher actuarial estimates based on actual losses. In 2009 and 2008, the Company's liabilities for unpaid losses and LAE attributable to prior years decreased by $4,827 and $544, respectively, as result of favorable development in both the Small Commercial Business segment and Specialty Risk and Extended Warranty segment partially offset by unfavorable development in our Specialty Program Business segment as well as the Company's involuntary participation in NCCI pools. In setting its reserves, the Company utilizes a combination of Company loss development factors and industry-wide loss development factors. In the event that the Company's losses develop more favorably than the industry, as a whole, the Company's liabilities for unpaid losses and LAE should decrease. Management believes that its use of both its historical experience and industry-wide loss development factors provide a reasonable basis for estimating future losses. As the Company has written more business and developed more credible data, the Company has assigned more weight to its historical experience than to industry-wide results. In either case, future events beyond the control of management, such as changes in law, judicial interpretations of law, and inflation may favorably or unfavorably impact the ultimate settlement of the Company's loss and LAE.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated changes in claim costs due to inflation are considered in estimating the ultimate claim costs, the increase in average severity of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and are modified if necessary.

10. Reinsurance

The Company utilizes reinsurance agreements to reduce its exposure to large claims and catastrophic loss occurrences and to increase its capacity to write profitable business. These agreements provide for recovery from reinsurers of a portion of losses and LAE under certain circumstances without relieving the insurer of its obligation to the policyholder. Losses and LAE incurred and premiums earned are reflected after deduction for reinsurance. In the event reinsurers are unable to meet their obligations under reinsurance agreements, the Company would not be able to realize the full value of the reinsurance recoverable balances. The Company periodically evaluates the financial condition of its reinsurers in order to minimize its exposure to significant losses from reinsurer insolvencies. Reinsurance does not discharge or diminish the primary liability of the Company; however, it does permit recovery of losses on such risks from the reinsurers.

The Company has coverage for its workers' compensation line of business under excess of loss reinsurance agreements. As the scale of the Company's workers' compensation business has increased, the Company has also increased the amount of risk retained. The agreements cover, per occurrence, losses in excess of $500 through December 31, 2004, $600 effective January 1, 2005, $1,000 effective July 1, 2006 through July 1, 2009, $1,000 plus 55% of $9,000 in excess of $1,000 effective July 1, 2009 through January 1, 2010, and $10,000 effective January 1, 2010 up to a maximum $130,000 ($50,000 prior to December 1, 2003) in losses. For losses occurring on or after January 1, 2010, the Company has purchased a ''third and fourth event cover'' that covers losses between $5,000 and $10,000 per occurrence, after a deductible equal to the first $10,000 per annum on such losses. The Company has reinsurance for worker's compensation losses caused by acts of terrorism is more limited than the Company's reinsurance for other types of workers' compensation losses and, through December 31, 2010, provided coverage for $110,000 in the aggregate in excess of $20,000 in the aggregate, per contract year.

The Company has coverage for its U.S. casualty lines of business under an excess of loss reinsurance agreement. The agreement covers losses in excess of $2,000 per occurrence (in certain cases the retention can rise to $2,500) up to a maximum $30,000. The Company purchases quota share reinsurance for its

10. Reinsurance – (continued)

non-program umbrella business and also purchases various pro-rata and excess reinsurance relating to specific insurance programs and/or specialty lines of business.

The Company has excess of loss reinsurance coverage for international general liability and professional and medical liability business underwritten by the Company's U.K. offices. The agreements cover losses in excess of £1,000 per occurrence up to a maximum of £10,000. In 2010, the Company purchased an 80% quota share reinsurance agreement from National Indemnity Company for its European medical liability business. In addition, the Company purchases various pro-rata and excess reinsurance relating to specific foreign insurance programs and/or specialty lines of business.

The Company has coverage for its U.S. property lines of business under an excess of loss reinsurance agreement. The agreement covers losses in excess of $2,000 per location up to a maximum $20,000, subject to per occurrence and annual limits that vary by layer. In addition the Company has a property catastrophe excess of loss agreement, which covers losses in excess of $5,000 per occurrence up to a maximum $65,000, subject to annual limits that vary by layer. The Company has coverage for its U.K. property lines of business under an excess of loss reinsurance agreement. The agreement covers losses in excess of £300 per risk (or in certain instances £1,000 per risk) up to a maximum £3,000. In addition, the Company has a property catastrophe excess of loss agreement, which covers losses in excess of £1,000 per occurrence up to a maximum £30,000.

TIC acts as servicing carrier on behalf of the Alabama, Arkansas, Illinois, Indiana, Georgia and Kansas Workers' Compensation Assigned Risk Plans. TIC issues and services certain workers compensation policies issued to assigned risk insureds. Those policies issued are subject to a 100% quota-share reinsurance agreement offered by the National Workers Compensation Reinsurance Pool or a state-based equivalent, which is administered by the National Council on Compensation Insurance, Inc. TIC wrote approximately $37,000, $35,400 and $45,300 of premium in 2010, 2009 and 2008, respectively, as a servicing carrier.

As part of the agreement to purchase WIC from Household Insurance Group Holding Company (''Household''), the Company agreed to write certain business on behalf of Household for a three year period through June 2009. The premium written under this arrangement is 100% reinsured by HSBC Insurance Company of Delaware, a subsidiary of Household. The reinsurance recoverable associated with this business is guaranteed by Household. This business is now in run-off. WIC wrote approximately $8,800, $17,100 and $25,200 of premium in 2010, 2009 and 2008, respectively, subject to this reinsurance treaty.

As part of the acquisition of AIIC, the Company acquired reinsurance recoverable as of the date of closing. The most significant reinsurance recoverable is from American Home Assurance Company (''American Home''). AIIC's reinsurance relationship with American Home incepted January 1, 1998 on a loss occurring basis. From January 1, 1998 through March 31, 1999 the American Home reinsurance covered losses in excess of $250 per occurrence up to statutory coverage limits. Effective April 1, 1999, American Home provided coverage in the amount of $150 in excess of $100. This additional coverage terminated on December 31, 2001 on a run-off basis. Therefore, for losses occurring in 2002 that attached to a 2001 policy, the retention was $100 per occurrence. Effective January 1, 2002 American Home increased its attachment was $250 per occurrence. The XOL treaty that had an attachment of $250 was terminated on a run-off basis on December 31, 2002. Therefore, losses occurring in 2003 that attached to a 2002 policy were ceded to American Home at an attachment point of $250 per occurrence. As of December 31, 2010, the Company had $70,934 of reinsurance recoverables with American Home.

During the third quarter of 2007, the Company entered into a master agreement with Maiden, as amended, by which its Bermuda subsidiary, AII, and Maiden Insurance entered into a quota share reinsurance agreement (the ''Maiden Quota Share''). For a description of this agreement see Note 12. ''Related Party Transactions''.

10. Reinsurance – (continued)

During the first quarter of 2010, the Company entered into an agreement with ACAC, by which the Company reinsures 10% of the net premiums of the GMAC Business pursuant to a 50% quota share reinsurance agreement. For a description of this agreement see Note 12. ''Related Party Transactions''.

From January 1, 2003 through December 31, 2010, the Company maintained variable quota share reinsurance for the Company's extended warranty insurance. The scope of this reinsurance arrangement was broad enough to cover all of the Company's extended warranty insurance worldwide, except for creditor and GAP insurance. However, the Company did not cede the majority of its U.S. extended warranty business.

Under this variable quota share reinsurance arrangements, the Company could elect to cede from 10% to 50% of each covered risk, subject to a limit of £500 for each ceded risk that the Company, at acceptance, regarded as one individual risk. This meant that, regardless of the amount of insured losses generated by any ceded risk, the maximum coverage for that ceded risk under this reinsurance arrangement was £500 million. For the majority of the business ceded under this reinsurance arrangement, the Company ceded 10% of the risk, but for some newer or larger risks, the Company ceded a larger share. This reinsurance was subject to a limit of £2,500 per occurrence of certain natural perils such as windstorms, earthquakes, floods and storm surge. Coverage for losses arising out of acts of terrorism was excluded from the scope of this reinsurance.

The effect of reinsurance with unrelated companies on premiums and losses for 2010, 2009 and 2008 are as follows:

	Year Ended December 31,					
	2010		2009		2008	
(Amounts in Thousands)	Written	Earned	Written	Earned	Written	Earned
Premiums:						
Direct	$1,375,993	$1,220,164	$1,117,090	$1,038,470	$1,061,100	$ 875,752
Assumed	184,829	160,285	81,856	49,626	49,474	48,156
Ceded	(733,596)	(634,790)	(555,520)	(514,214)	(555,661)	(484,811)
	$ 827,226	$ 745,659	$ 643,426	$ 573,882	$ 554,913	$ 439,097

	As of December 31,					
	2010		2009		2008	
(Amounts in Thousands)	Assumed	Ceded	Assumed	Ceded	Assumed	Ceded
Loss and LAE reserves	$129,066	$(670,877)	$71,859	$(561,963)	$57,827	$(514,759)
Unearned premiums	77,548	(484,960)	53,003	(410,553)	20,333	(372,030)
Loss and LAE expense incurred	105,501	(441,106)	24,511	(374,192)	42,468	(346,958)

The Company continuously updates the reserves on these lines of business based on information available from the ceding insurers. During 2010 and 2009, the Company commuted certain loss reserves of $1,350 and $4,612, respectively, related to workers' compensation that were included in ceded reinsurance treaties. This commutation had no material effect on net earnings in either year.

11. Debt

Junior Subordinated Debt

The Company has established four special purpose trusts for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in junior subordinated debentures issued by the Company. In accordance with FASB ASC 810-10-25, the Company does not consolidate such special purpose trusts, as the Company is not considered to be the primary beneficiary. The equity investment, totaling $3,714 as of December 31, 2010 on the Company's consolidated balance sheet, represents the Company's ownership of common securities issued by the trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on the Company's common stock under certain circumstances, including default of payment. The Company incurred $2,605 of placement fees in connection with these issuances which is being amortized over thirty years.

The table below summarizes the Company's trust preferred securities as of December 31, 2010:

(Amounts in thousands) Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate of Notes
AmTrust Capital Financing Trust I	$ 25,000	$ 774	$ 25,774	3/17/2035	8.275%[(1)]
AmTrust Capital Financing Trust II	25,000	774	25,774	6/15/2035	7.710[(1)]
AmTrust Capital Financing Trust III	30,000	928	30,928	9/15/2036	8.830[(2)]
AmTrust Capital Financing Trust IV	40,000	1,238	41,238	3/15/2037	7.930[(3)]
Total trust preferred securities	$120,000	$3,714	$123,714		

(1) The interest rate will change to three-month LIBOR plus 3.40% after the tenth anniversary in 2015.

(2) The interest rate will change to LIBOR plus 3.30% after the fifth anniversary in 2011.

(3) The interest rate will change to LIBOR plus 3.00% after the fifth anniversary in 2012.

The Company recorded $10,209 of interest expense for the years ended December 31, 2010, 2009 and 2008, respectively, related to these trust preferred securities.

Term Loan

On June 3, 2008, the Company entered into a term loan with JPMorgan Chase Bank, N.A. in the aggregate amount of $40,000. The term of the loan is for a period of three years and requires quarterly principal payments of $3,333, which began on September 3, 2008 and end on June 3, 2011. As of December 31, 2010, the principal balance was $6,667. The loan carries a variable interest rate and is based on a Eurodollar rate plus an applicable margin. The Eurodollar rate is a periodic fixed rate equal to the London Interbank Offered Rate "LIBOR" plus a margin rate, which is 185 basis points. As of December 31, 2010 the interest rate was 2.15%. The Company recorded $752 and $1,494 of interest expense for the years ended December 31, 2010 and 2009, respectively. The Company can prepay any amount without penalty upon prior notice. The term loan contains affirmative and negative covenants, including limitations on additional debt, limitations on investments and acquisitions outside the Company's normal course of business. The loan requires the Company to maintain a debt to capital ratio of 0.35 to 1 or less. The Company incurred financing fees of $52 related to the agreement.

On June 4, 2008, the Company entered into a fixed rate interest swap agreement with a total notional amount of $40,000 to convert the term loan from a variable to a fixed rate. Under this agreement, the Company pays a fixed rate of 3.47% plus a margin of 185 basis points or 5.32% and receives a variable rate

11. Debt – (continued)

in return based on LIBOR plus a margin rate, which is 185 basis points. The variable rate is reset every three months, at which time the interest will be settled and will be recognized as adjustments to interest expense. The Company recorded interest expense (income) of $97, $756 and $(462) for the years ended December 31, 2010, 2009 and 2008 respectively, related to this agreement.

Promissory Note

In connection with the stock and asset purchase agreement with a subsidiary of Unitrin, Inc. (''Unitrin''), the Company, on June 1, 2008, issued a promissory note to Unitrin in the amount of $30,000. The note is non-interest bearing and requires four annual principal payments of $7,500. The first two were paid in 2009 and 2010, respectively, and the remaining principal payments are due on June 1, 2011 and 2012. Upon entering into the promissory note, the Company calculated imputed interest of $3,155 based on interest rates available to the Company, which was 4.5%. Accordingly, the note's carrying balance was adjusted to $26,845 at the acquisition. The note is required to be paid in full, immediately, under certain circumstances including a default of payment or change of control of the Company. The Company included $771, $1,067 and $716 of amortized discount on the note in its results of operations for the years ended December 31, 2010, 2009 and 2008 respectively. The note's carrying value at December 31, 2010 and 2009 was $14,400 and $21,128, respectively.

Line of Credit

On June 30, 2010, the Company extended the term of its unsecured $30,000 line of credit with JPMorgan Chase, N.A. to June 30, 2011. The Company incurred fees of $30 for this amendment. The line is being used for collateral for letters of credit. Interest payments are required to be paid monthly on any unpaid principal and bears interest at a rate of LIBOR plus 150 basis points. As of December 31, 2010 there was no outstanding balance on the line of credit. The Company has outstanding letters of credit in place at December 31, 2010 for $28,825 which reduced the availability on the line of credit to $1,175 as of December 31, 2010.

Maturities of Debt

Maturities of the Company's debt for the five years subsequent to December 31, 2010 are as follows:

(Amounts in Thousands)	2011	2012	2013	2014	2015	Thereafter
Junior subordinated debt	$ —	$ —	$ —	$ —	$ —	$123,714
Term loan	6,667	—	—	—	—	—
Promissory note	7,038	7,362	—	—	—	—
Total	$13,705	$7,362	$ —	$ —	$ —	$123,714

12. Related Party Transactions

Reinsurance Agreement — Maiden

Maiden Holdings, Ltd. (''Maiden'') is a publicly-held Bermuda insurance holding company (Nasdaq: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, the principal shareholders, and, respectively, the chairman of the board of directors, a director, and the chief executive officer and director of the Company. As of December 31, 2010, Michael Karfunkel owns or controls approximately 13.9% of the issued and outstanding capital stock of Maiden, George Karfunkel owns or controls approximately 9.4% of the issued and outstanding capital stock of Maiden and Mr. Zyskind owns or controls approximately 4.99% of the issued and outstanding stock of Maiden. Mr. Zyskind serves as the non-executive chairman of the board of Maiden's board of directors. Maiden Insurance Company, Ltd (''Maiden Insurance''), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer.

12. Related Party Transactions – (continued)

During the third quarter of 2007, the Company and Maiden entered into a master agreement, as amended, by which they caused the Company's Bermuda subsidiary, AmTrust International Insurance, Ltd. ("AII") and Maiden Insurance to enter into a quota share reinsurance agreement (the "Maiden Quota Share"), as amended, by which (a) AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by AmTrust's U.S., Irish and U.K. insurance companies (the "AmTrust Ceding Insurers"), net of the cost of unaffiliated insuring reinsurance (and in the case of AmTrust's U.K. insurance subsidiary AmTrust Europe Ltd., net of commissions) and 40% of losses and (b) AII transferred to Maiden Insurance 40% of the AmTrust Ceding Insurer's unearned premium reserves, effective as of July 1, 2007, with respect to the Company's then current lines of business, excluding risks for which the AmTrust Ceding Insurers' net retention exceeded $5,000 ("Covered Business").

In June 2008, AII, pursuant to the Maiden Quota Share, offered to cede to Maiden Insurance and Maiden Insurance agreed to assume 100% of unearned premium and losses related to in-force retail commercial package business assumed by the Company in connection with its acquisition of UBI, the commercial package business of Unitrin, Inc. ("Unitrin") from a subsidiary of Unitrin and 40% of prospective net premium written and losses related to retail commercial package business. In September 2008, AII, pursuant to the Maiden Quota Share, offered to cede and Maiden Insurance agreed to assume 40% of the net premium written and losses with respect to certain business written by AmTrust's Irish insurance subsidiary, AIU, for which AIU retains in excess of $5,000 per loss ("Excess Retention Business").

The Maiden Quota Share, as amended, further provides that AII receives a ceding commission of 31% of ceded written premiums with respect to Covered Business and the AIU Excess Retention Business and 34.375% with respect to retail commercial package business. The Maiden Quota Share, which had an initial term of three years, has been renewed for a three year term until June 30, 2013 and will automatically renew for successive three year terms, unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three year term. In addition, either party is entitled to terminate on thirty days' notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Insurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers.

The following is the effect on the Company's balance sheet as of December 31, 2010 and 2009 related to the Maiden Quota Share agreement:

(Amounts in Thousands)	2010	2009
Assets and liabilities:		
Reinsurance recoverable	$ 386,932	$ 293,626
Prepaid reinsurance premium	283,899	262,128
Ceded reinsurance premiums payable	(95,629)	(86,165)
Note payable	(167,975)	(167,975)

12. Related Party Transactions – (continued)

The following is the effect on the Company's results of operations for the years ended December 31, 2010, 2009 and 2008 related to the Maiden Quota Share agreement:

	2010	2009	2008
Results of operations:			
Premium written – ceded[1]	$(463,042)	$(379,744)	$(444,981)
Change in unearned premium – ceded	21,771	21,747	106,411
Earned premium – ceded	$(441,271)	$(357,997)	$(338,570)
Ceding commission on premium written	$ 144,598	$ 118,991	$ 141,168
Ceding commission – deferred	(6,487)	(6,140)	(26,451)
Ceding commission – earned	$ 138,111	$ 112,851	$ 114,717
Incurred loss and loss adjustment expense – ceded	$ 295,469	$ 259,780	$ 232,290
Interest expense on collateral loan	982	2,958	6,541

(1) 2008 includes $59,779 of ceded written premium ($47,686 of earned premium) related to the unearned premium transfer that was acquired as part of the Company's acquisition of UBI and subsequently reinsured 100% to Maiden.

The Maiden Quota Share requires that Maiden Insurance provide to AII sufficient collateral to secure its proportional share of AII's obligations to the U.S. AmTrust Ceding Insurers. AII is required to return to Maiden Insurance any assets of Maiden Insurance in excess of the amount required to secure its proportional share of AII's collateral requirements, subject to certain deductions. In order to secure its proportional share of AII's obligation to the AmTrust Ceding Insurers domiciled in the U.S., AII currently has outstanding a collateral loan issued to Maiden Insurance in the amount of $167,975 (See Note Payable — Collateral for Proportionate Share of Reinsurance Obligation). Effective December 1, 2008, AII and Maiden Insurance entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Insurance is required to provide AII the assets required to secure Maiden's proportional share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral as of December 31, 2010 was $362,000. Maiden retains ownership of the collateral in the trust account.

Reinsurance Brokerage Agreement — Maiden

Effective July 1, 2007, AmTrust, through a subsidiary, entered into a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, AmTrust provides brokerage services relating to the Maiden Quota Share for a fee equal to 1.25% of reinsured premium. The brokerage fee is payable in consideration of AII Reinsurance Broker Ltd.'s brokerage services. The Company recorded $5,841, $5,135 and $5,492 of brokerage commission (recorded as a component of Service and fee income) during the years ended December 31, 2010, 2009 and 2008, respectively.

Asset Management Agreement — Maiden

Effective July 1, 2007, AmTrust, through a subsidiary, entered into an asset management agreement with Maiden, pursuant to which it provides investment management services to Maiden and its affiliates. The Company currently manages approximately $1,900,000 of assets as of December 31, 2010 related to this agreement. Effective April 1, 2008, the investment management services fee was 0.20% per annum for periods in which average invested assets are $1,000,000 or less and 0.15% per annum for periods in which the average invested assets exceed $1,000,000. As a result of this agreement, the Company earned approximately $2,693, $2,459 and $1,364 of investment management fees (recorded as a component of service and fee income) for the years ended December 31, 2010, 2009 and 2008, respectively.

12. Related Party Transactions – (continued)

Services Agreement — Maiden

AmTrust, through its subsidiaries, entered into services agreements in 2008, pursuant to which it provides certain marketing and back office services to Maiden. Pursuant to the services agreements, AmTrust earns a fee equal to the amount required to reimburse AmTrust for its costs plus 8%. As a result of this agreement, the Company recorded fee income of approximately $38, $432 and $1,152 for the years ended December 31, 2010, 2009 and 2008, respectively.

Note Payable to Maiden — Collateral for Proportionate Share of Reinsurance Obligation

In conjunction with the Maiden Quota Share, AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby, Maiden Insurance agreed to lend to AII from time to time the amount of the obligation of the AmTrust Ceding Insurers that AII is obligated to secure, not to exceed an amount equal to Maiden Insurance's proportionate share of such obligations. The loan agreement was amended in February 2008 to provide for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Each advance under the loan is secured by a promissory note. Advances totaled $167,975 as of December 31, 2010. The Company recorded $982 and $2,958 of interest expense during the years ended December 31, 2010 and 2009, respectively.

Other Reinsurance Agreements — Maiden

Between January 1, 2008 and January 1, 2010, Maiden was a 45% participating reinsurer in the first layer of the Company's workers' compensation excess of loss program, which provided coverage in the amount of $9,000 per occurrence in excess of $1,000, subject to an annual aggregate deductible of $1,250. From January 1, 2008 through June 30, 2009, Maiden was one of two participating reinsurers in the layer and participated on the same market terms and conditions as the other participant. Effective July 1, 2009, the other participant's participation in the layer was terminated, but Maiden continued to assume 45% of the layer on the existing terms and conditions through the end of the term on January 1, 2010.

As of January 1, 2008, Maiden Insurance had a participation in a $4,000 in excess of $1,000 specialty transportation program written by the Company. For calendar year 2008, Maiden Insurance's participation was 50% and for calendar year 2009, Maiden Insurance's participation was 30%. This program provided primarily, commercial auto coverage and, to a lesser extent, general liability coverage to private non-emergency para-transit and school bus service operators. The participations were sourced through a reinsurance intermediary via open market placement in which competitive bids were solicited by an independent broker. Several other broker market reinsurers hold the other 50% participation for 2008 and 70% participation for 2009. The agreement terminated January 1, 2010.

Effective September 1, 2010, the Company, through TIC, entered into a quota share reinsurance agreement with Maiden Specialty Insurance Company (''Maiden Specialty'') by which TIC assumes a portion (generally 90%) of premiums and losses with respect to certain surplus lines programs written by Maiden Specialty on behalf of the Company (the ''Surplus Lines Facility''). The Surplus Lines Facility will enable the Company to write business on a surplus lines basis throughout the United States, which it cannot, at present, do through its insurance subsidiaries. Currently, the Company is utilizing the Surplus Lines Facility for two programs for which Maiden Specialty receives a five percent ceding commission on all premiums ceded by Maiden Specialty to TIC. The Surplus Lines Facility shall remain continuously in force until terminated. The Company did not enter into any material transactions related to this agreement during the year ended December 31, 2010.

Effective September 1, 2010, the Company, through its subsidiary, SNIC, entered into a reinsurance agreement with Maiden Reinsurance Company and an unrelated third party. Under the agreement, which has a term of one year, SNIC will cede 80% of the gross liabilities produced under the Southern General Agency program to Maiden Reinsurance Company and 20% of the gross liabilities produced to an unrelated third party.

12. Related Party Transactions – (continued)

SNIC receives a five percent commission on ceded written premiums. The Company's Audit Committee reviewed and approved the reinsurance arrangement. The reinsurance agreement's impact on the Company's results of operations, financial position or liquidity was immaterial for the year ended and as of December 31, 2010.

Investment in ACAC

During the year ended December 31, 2010, the Company completed its strategic investment in ACAC. ACAC was formed by the Michael Karfunkel 2005 Grantor Retained Annuity Trust (the ''Trust'') and the Company for the purpose of acquiring from GMAC Insurance Holdings, Inc. (''GMACI'') and Motor Insurance Corporation (''MIC'', together with GMACI, ''GMAC'') GMAC's U.S. consumer property and casualty insurance business. Michael Karfunkel, individually, and the Trust, which is controlled by Michael Karfunkel, own 100% of ACAC's common stock (subject to the Company's conversion rights described below). Michael Karfunkel is the chairman of the board of directors of the Company and the father-in-law of Barry D. Zyskind, the chief executive officer of the Company. The ultimate beneficiaries of the Trust include Michael Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman of the Board of Directors of ACAC.

Pursuant to the Amended Stock Purchase Agreement, ACAC issued and sold to the Company for an initial purchase price of approximately $53,000, which was equal to 25% of the capital initially required by ACAC, 53,054 shares of Series A Preferred Stock, which provides an 8% cumulative dividend, is non-redeemable and is convertible, at the Company's option, into 21.25% of the issued and outstanding common stock of ACAC (the ''Preferred Stock''). The Company has pre-emptive rights with respect to any future issuances of securities by ACAC and the Company's conversion rights are subject to customary anti-dilution protections. The Company has the right to appoint two members of ACAC's board of directors, which consists of six members. Subject to certain limitations, the board of directors of ACAC may not take any action in the absence of the Company's appointees and ACAC may not take certain corporate actions without the unanimous prior approval of its board of directors (including the Company's appointees). In accordance with ASC 323-10-15, *Investments-Equity Method and Joint Ventures*, the Company accounts for its investment in ACAC under the equity method. The Company recorded $14,882 of income during the year ended December 31, 2010 related to its equity investment in ACAC. Additionally, ACAC completed its purchase accounting required under ASC 805, *Business Combinations,* related to its acquisition of GMAC during 2010. As a result, the Company recorded a gain on its investment in acquired unconsolidated subsidiary in the amount of $10,450, which is included in the income statement in equity in earnings of unconsolidated subsidiaries.

The Company, the Trust and Michael Karfunkel, individually, each shall be required to make its or his proportional share of the deferred payments payable by ACAC to GMAC pursuant to the GMAC Securities Purchase Agreement, which are payable over a period of three years from the date of the closing of the Acquisition, to the extent that ACAC is unable to otherwise provide for such payments. The Company's proportionate share of such deferred payments shall not exceed $22,500.

The acquired GMAC consumer property and casualty insurance business (the ''GMAC Business'') is a writer of automobile coverages through independent agents in the United States. The GMAC Business had a net written premium in excess of $900,000 in 2010 that encompassed all fifty states. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the ''GMAC Insurers'').

In connection with the Company's investment:

(i) the Company provides ACAC and its affiliates information technology development services at cost plus 20%. In addition, once a new system to be developed by the Company is implemented and ACAC or its affiliates begin using the system in its operations, the Company will be entitled to an

12. Related Party Transactions – (continued)

additional fee for use of the systems in the amount of 1.25% of gross premiums of ACAC and its affiliates. The Company recorded approximately $2,022 of fee income for the year ended December 31, 2010 related to this agreement. The terms and conditions of the above are subject to regulatory approval.

(ii) the Company manages the assets of ACAC and its subsidiaries for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1,000,000 or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1,000,000. As a result of this agreement, the Company earned approximately $1,456 of investment management fees for the year ended December 31, 2010.

(iii) ACAC is providing the Company with access to its agency sales force to distribute the Company's products, and ACAC will use its best efforts to have said agency sales team appointed as the Company's agents.

(iv) ACAC will grant the Company a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMAC in connection with the Acquisition.

(v) the Company, effective March 1, 2010, reinsures 10% of the net premiums of the GMAC Business, pursuant to a 50% quota share reinsurance agreement (''Personal Lines Quota Share'') with the GMAC Insurers, as cedents, and the Company, American Capital Partners Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. The Company has a 20% participation in the Personal Lines Quota Share, by which it receives 10% of net premiums of the personal lines business. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, shall receive 50% of the net premium of the GMAC Insurers and assume 50% of the related net losses. The Personal Lines Quota Share has an initial term of three years and shall renew automatically for successive three year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. Notwithstanding the foregoing, the Company's participation in the Personal Lines Quota Share may be terminated by the GMAC Insurers on 60 days written notice in the event the Company becomes insolvent, is placed into receivership, its financial condition is impaired by 50% of the amount of its surplus at the inception of the Personal Lines Quota Share or latest anniversary, whichever is greater, is subject to a change of control, or ceases writing new and renewal business. The GMAC Insurers also may terminate the agreement on nine months written notice following the effective date of an initial public offering or private placement of stock by ACAC or a subsidiary. The Company may terminate its participation in the Personal Lines Quota Share on 60 days written notice in the event the GMAC Insurers are subject to a change of control, cease writing new and renewal business, effect a reduction in their net retention without the Company's consent or fail to remit premium as required by the terms of the Personal Lines Quota Share. The Personal Lines Quota Share provides that the reinsurers pay a provisional ceding commission equal to 32.5% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment. The ceding commission is subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.5% or less and a minimum of 30.5% if the loss ratio is 64.5% or higher. The Personal Lines Quota Share was subject to a premium cap that limited the premium that could be ceded by the GMAC Insurers to TIC to $110,000 during calendar year 2010 to the extent TIC were to determine, in good faith, that it could not assume additional premium. The premium cap increases by 10% per annum thereafter. As a result of this agreement, the Company assumed $82,295 of business from the GMAC Insurers during the year ended December 31, 2010.

12. Related Party Transactions – (continued)

As a result of these service agreements with ACAC, the Company recorded fees totaling approximately $3,478 for the year ended December 31, 2010. As of December 31, 2010, the outstanding balance related to these service fees and reimbursable costs was approximately $1,962. In addition, in the three months ended June 30, 2010, the Company recorded an accrued liability of approximately $2,500 for advanced fees it received from ACAC that was to be applied against future fees owed by ACAC under these service agreements. This liability was settled through a declaration of a dividend by ACAC at the end of 2010.

Leap Tide Capital Management

In December 2010, the Company sold Leap Tide Capital Management, Inc. (LTCMI) to Leap Tide Capital Management LLC (LTCML), an unaffiliated third party, for approximately $500. The resulting gain from the sale was immaterial to the Company's results of operations, financial position or liquidity. LTCMI, which was a wholly-owned subsidiary of the Company prior to the sale, managed a portion of the Company's investment portfolio as well as hedge funds invested in with funds from qualified third-party investors, including the Karfunkel family. LTCMI earned approximately $272, $47 and $603 of management fees on the investment portfolio during the years ended December 31, 2010, 2009 and 2008, respectively. The Company, through certain of its subsidiaries, continues to use LTCML to manage a portion of its investment portfolio totaling approximately $7,100 as of December 31, 2010.

Lease Agreements

In 2002, the Company entered into a lease for approximately 9,000 square feet of office space at 59 Maiden Lane in New York, New York from 59 Maiden Lane Associates, LLC, an entity which is wholly-owned by Michael Karfunkel and George Karfunkel. Effective January 1, 2008, the Company entered into an amended lease whereby it increased its leased space to 14,807 square feet and extended the lease through December 31, 2017. The Company's Audit Committee reviewed and approved the amended lease agreement as amended. The Company paid approximately $689, $586 and $587 for the lease for the years ended December 31, 2010, 2009 and 2008, respectively.

In 2008, the Company entered into a lease for approximately 5,000 square feet of office space in Chicago, Illinois from 33 West Monroe Associates, LLC, an entity which is wholly-owned by Michael Karfunkel and George Karfunkel. Effective May 1, 2009, the Company entered into an amended lease by which the Company increased its leased space to 7,156 square feet. The Company's Audit Committee reviewed and approved the lease agreement. The Company paid approximately $257, $168 and $123 for the years ended December 31, 2010, 2009 and 2008, respectively.

Diversified

Diversified Construction Management, LLC (''Diversified'') provided construction management and general contractor services for a Company subsidiary in 2010 and 2009. The Company recorded a total of $423 and $260 for the years ended December 31, 2010 and 2009, respectively, for Diversified's services in connection with the construction project. Robert A. Saxon, Jr., a principal of Diversified, is the brother of Michael J. Saxon, the Company's Chief Operating Officer. During several prior years, Diversified provided similar services to the Company. While the arrangements were not pre-approved by the Audit Committee, upon subsequent review, the Audit Committee determined that the contracts were not less favorable to the Company than similar services provided at arms-length.

13. Investment in Life Settlements

In July 2010, the Company formed Tiger Capital LLC (''Tiger'') with a subsidiary of ACAC and a third-party administrator for the purposes of acquiring certain life settlement contracts. A life settlement contract is a contract between the policy owner of a life insurance policy and a third-party investor who obtains the ownership and beneficiary rights of the underlying life insurance policy. The Company and ACAC

13. Investment in Life Settlements – (continued)

each initially contributed approximately $6,000 for their respective fifty percent ownership interest in Tiger. The third party serves as the administrator of the life settlement contract portfolio, for which it receives an annual fee. Under the terms of the agreement, the third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. The Company is responsible for certain actuarial and finance functions related to Tiger. Additionally, in conjunction with the Company's 21.25% ownership percentage of ACAC, the Company ultimately receives 60.6% of the profits and losses of Tiger. As such, in accordance with ASC 810-10, *Consolidation*, the Company has been deemed the primary beneficiary and, therefore, consolidates this entity.

In July 2010, Tiger acquired certain life insurance policies and cash value loans for approximately $11,972. The Company accounts for investments in life settlements in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these policies using the fair value method. The Company determines fair value on a discounted cash flow basis of anticipated death benefits, incorporating current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available. The change in fair value, life insurance proceeds received and periodic maintenance costs, such as premium, necessary to keep the underlying policy in force, are recorded in Other revenues on the Consolidated Statement of Income. The Company recorded a gain of approximately $11,855 upon initial acquisition of the life insurance policies. The Company's investments in life settlements and cash value loans were approximately $31,457 as of December 31, 2010 and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet.

In addition to the 79 policies disclosed in the table below, the Company owns 143 premium finance loans, which are secured by life insurance policies and are carried at a value of $9,302. The face value amount of these 143 life insurance policies is $825,200. If policyholders default on these loans, the Company will become the beneficiary on the underlying life insurance policy, at which point the Company has the option to make premium payments on the policies or allow the policies to lapse. If the policyholders do not default on the loans, the Company will be repaid the amount of the premium finance loans.

The following table describes the Company's investment in life settlements as of December 31, 2010:

(Amounts in thousands, except Life Settlement Contracts) Remaining life expectancy as of December 31, 2010	Number of Life Settlement Contracts	Fair Value	Face Value
0 – 1	—	—	—
1 – 2	—	—	—
2 – 3	—	—	—
3 – 4	—	—	—
4 – 5	—	—	—
Thereafter	79	$22,155	$495,183
Total	79	$22,122	$495,183

13. Investment in Life Settlements – (continued)

Premiums to be paid for each of the five succeeding fiscal years to keep the life insurance policies in force as of December 31, 2010, are as follows:

Amounts in thousands	Premiums Due on Life Settlement Contracts	Premiums Due on Premium Finance Loans	Total
2011	$ 2,415	$ 5,539	$ 7,954
2012	4,107	7,825	11,932
2013	5,079	9,800	14,879
2014	5,754	11,060	16,814
2015	6,021	11,853	17,874
Thereafter	214,295	375,926	590,221
	$237,671	$422,003	$659,674

14. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses:

Policy Acquisition Expenses	2010	2009	2008
Policy acquisition expenses	$180,757	$120,182	$100,806
Salaries and benefits	97,934	80,179	65,416
Other insurance general and administrative expense	24,118	43,918	37,525
	$302,809	$244,279	$203,747

15. Share Based Compensation

During 2010, the Company adopted the 2010 Omnibus Incentive Plan (the ''Plan''), which permits the Company to grant to officers, employees and non-employee directors of the Company incentive compensation directly linked to the price of the Company's stock. This plan replaced the 2005 Equity Incentive Plan. The Plan authorizes up to an aggregate of 6,045,511 shares of Company stock for awards of options to purchase shares of the Company's common stock, restricted stock, restricted stock units (''RSU'') or appreciation rights. Shares used may be either newly issued shares or treasury shares or both. The aggregate number of shares of common stock for which awards may be issued may not exceed 6,045,511 shares, subject to the authority of the Company's board of directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting the Company's common stock. All remaining unissued shares related to the Company's previously existing 2005 and Equity and Incentive Plan were absorbed into the Plan. As of December 31, 2010, approximately 5,900,000 shares of Company common stock remained available for grants under the Plan.

The Company recognizes compensation expense under FASB ASC 718-10-25 for its share-based payments based on the fair value of the awards. The Company grants stock options at prices equal to the closing stock price of the Company's stock on the dates the options are granted. The options have a term of ten years from the date of grant and vest primarily in equal annual installments over the four-year period following the date of grant for employee options. Employees have three months after the employment relationship ends to exercise all vested options. The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense.

15. Share Based Compensation – (continued)

The fair value was estimated at the date of grant with the following weighted average assumptions for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Volatility	31.43%	31.04%	28.84%
Risk-free interest rate	1.92%	2.50%	1.80%
Weighted average expected lives in years	6.25	6.25	6.25
Dividend rate	1.98%	1.98%	1.00%
Forfeiture rate	0.50%	1.45%	3.00%

A summary of the Company's stock option activity for the years ended December 31, 2010, 2009 and 2008 is shown below:

	2010		2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,168,089	$10.12	3,728,500	$ 9.88	3,126,250	$ 8.91
Granted	276,250	14.24	565,539	10.95	732,500	13.96
Forfeited	(116,500)	11.16	(92,250)	9.26	(31,500)	7.88
Exercised	(200,913)	8.10	(33,700)	7.50	(98,750)	7.50
Outstanding at end of year	4,126,926	$10.46	4,168,089	$10.12	3,728,500	$ 9.88

The weighted average grant date fair value of options granted was $3.94, $3.04 and $4.46 during 2010, 2009 and 2008, respectively. The Company had approximately $2,564, $5,144 and $6,900 of unrecognized compensation cost related to unvested stock options as of December 31, 2010, 2009 and 2008, respectively. As of December 31, 2010, all option grants outstanding had an approximate weighted average remaining life of 6.7 years. As of December 31, 2010 and 2009, there were approximately 3,118,000 shares and 2,576,000 shares, respectively, with a weighted average exercise price of $9.62 and $9.11, respectively which were exercisable. The intrinsic value of stock options exercised during 2010, 2009 and 2008 was less than $1,300. Cash received from options exercised was $1,770, $315 and $1,612 during 2010, 2009 and 2008.

During 2010, the Company issued 50,000 shares of restricted stock with a market value of approximately $700. The Board has set a four year vesting period for the outstanding restricted shares. The fair value of each restricted share grant is equal to the market price of the Company's common stock at the date of grant. Expense relating to restricted shares is amortized ratably over the vesting period. The Company recorded compensation expense of approximately $137 related to this grant during the year ended December 21, 2010.

During 2010, the Company issued approximately 90,000 RSUs with a market value of approximately $1,250. The Board has set a four year vesting period for RSUs. The fair value of each RSU is equal to the market price of the Company's common stock at the date of grant. Expense relating to the RSU grant is amortized ratably over the vesting period. The Company recorded compensation expense of approximately $195 related to RSU grants during the year ended December 31, 2010.

Compensation expense for all share-based payments under ASC 718-10-30 was approximately $3,386, $4,241 and $3,136 for the years ended December 31, 2010, 2009 and 2008, respectively.

As of December 31, 2010 there was approximately $4,189 of total unrecognized compensation cost related to non-vested share-based compensation arrangements.

16. Income Taxes

The provision for income taxes consists of the following for the years ended December 31, 2010, 2009 and 2008:

(Amounts in Thousands) Income Tax Provision (Benefit)	2010	2009	2008
Current	$31,910	$15,177	$18,094
Deferred	17,195	12,282	2,473
	$49,105	$27,459	$20,567

The effective income tax rate differs from the statutory income tax rate as follows for the years ended December 31, 2010, 2009 and 2008:

(Amounts in Thousands)	2010	2009	2008
Income before provision for income taxes, equity in earnings of unconsolidated subsidiaries	171,401	131,504	101,586
Equity in earnings (loss) of unconsolidated subsidiaries	24,044	(822)	(991)
Non-controlling interest	(3,875)	—	2,900
Income before provision for income taxes	$191,570	$130,682	$103,495
Tax at federal statutory rate of 35%	$ 67,049	$ 45,740	$ 36,223
Tax effects resulting from:			
Net income of non-includible foreign subsidiaries	(16,075)	(12,905)	(13,502)
Foreign currency gain	(247)	(860)	(864)
Other, net	(1,622)	(4,515)	(1,290)
	$ 49,105	$ 27,459	$ 20,567

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2010 and 2009 are shown below:

(Amounts in Thousands)	2010	2009
Deferred tax assets:		
Unearned premiums	$ 37,930	$ 32,477
Ceding commission	31,749	16,887
Carryforward loss	20,990	19,182
Other	16,327	19,762
Losses and LAE reserves	6,718	8,101
Bad debt	4,628	2,977
	$ 118,342	$ 99,386
Deferred tax liabilities:		
Deferred acquisition costs	$(110,384)	$(79,950)
Depreciation	(5,501)	(2,798)
Other	(4,610)	(6,502)
Equity results which cannot be liquidated tax free	(4,179)	—
Cash surrender value	(1,877)	(1,770)
Accrual market discount	(1,674)	(751)
	(128,225)	(91,771)
Deferred tax (liability) asset, net	$ (9,883)	$ 7,615

16. Income Taxes – (continued)

The Company's management believes that it will realize the benefits of its deferred tax asset and, accordingly, no valuation allowance has been recorded for the periods presented. The Company does not provide for income taxes on the unremitted earnings of foreign subsidiaries where, in management's opinion, such earnings have been indefinitely reinvested. It is not practical to determine the amount of unrecognized deferred tax liabilities for temporary differences related to these investments. The deferred tax asset related to Loss and LAE reserves of $6,718 is net of the deferred tax liability of $17,090 for use of equalization reserves which were acquired as part of the AmTrust Re Gamma and AmTrust Re Omega acquisitions.

The Company's major taxing jurisdictions include the U.S. (federal and state), the United Kingdom and Ireland. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the Company's statute of limitation is open for tax years ended December 31, 2007 and forward. As permitted by FASB ASC 740-10, the Company adopted an accounting policy to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. Previously, the Company's policy was to classify interest and penalties as an operating expense in arriving at pre-tax income. At December 31, 2010, the Company has approximately $200 of accrued interest and penalties related to unrecognized tax benefits in accordance with FASB ASC 740-10.

During 2007, the Company, while performing a review of the income tax return filed with the Internal Revenue Service (''IRS'') for calendar year ending December 31, 2006, determined an issue existed per FASB ASC 740-10 guidelines concerning its position related to accrued market discount. The Company reverses accrued market discount income recognized for book purposes when calculating taxable income. The reversal results from the accrued market discount income recognized by the insurance subsidiaries for bonds and other investments. The Company inadvertently reversed the amount related to commercial paper investments on the 2006 income tax return. The Company has estimated the potential liability to be approximately $1,017 (including $200 for penalties and interest) and has reflected this position, per FASB ASC 740-10 guidelines, in the consolidated financial statements.

During 2006, the IRS completed an audit of the 2002 and 2003 consolidated federal income tax returns of the Company's subsidiaries, AIIS (now known as AmTrust North America of Florida, Inc.) and AIIC, (collectively ''Associated''), which the Company acquired in 2007. In August 2009, the IRS, with the Company's consent, issued an assessment of additional tax in the aggregate amount of $350. In September 2009, the IRS, with the Company's consent, assessed interest in the total amount of $287. The Company made payment of the additional tax in full in the third quarter of 2009 and the related interest payment in October 2009. As a result of these payments, the Company believes the aforementioned liabilities have been settled with the IRS and that all remaining settlements to the previous shareholders of Associated were made in 2010.

During 2008, the IRS commenced an audit of Associated's consolidated federal tax return for 2006. As a result of this audit, the IRS proposed adjustments resulting in additional tax in the total amount of $169 for 2006 and the period ended August 31, 2007. The Company has accepted, and settled, the proposed adjustments.

16. Income Taxes – (continued)

A reconciliation of the total amounts of gross unrecognized tax benefits is as follows:

(Amounts in thousands)	2010	2009
Gross unrecognized tax benefit as of January 1	$ 5,293	$5,240
Decreases in tax positions for prior years	(4,325)	—
Increases in tax positions for prior years	49	53
Decreases in tax positions for current year	—	—
Increases in tax positions for current year	—	—
Lapse in statute of limitations	—	—
Settlements	—	—
Gross unrecognized tax benefits as of December 31	$ 1,017	$5,293

Listed below are the tax years that remain subject to examination by major tax jurisdictions:

	Open Tax Years
Major tax jurisdictions:	
United States	2006 – 2009
United Kingdom	2007 – 2009
Ireland	2006 – 2009

17. Employee Benefit Plans

The Company sponsors a defined contribution pension plan. Participation in this plan is available to a majority of employees. Contributions to this plan were based on a percentage of employee contributions. The cost of this plan for the Company was approximately $1,172, $1,021 and $880 for the years ended December 31, 2010, 2009 and 2008, respectively.

18. Earnings per Share

Effective January 1, 2009, the Company adopted ASC subtopic 260-10, *Determining Whether Instruments Granted in Share-Based Payments Transactions Are Participating Securities*. ASC 260-10 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and are to be included in the computation of earnings per share under the two-class method. The Company's unvested restricted shares contain rights to receive nonforfeitable dividends and are participating securities, requiring the two-class method of computing earnings per share. The prior periods' earnings per share data was not required to be retrospectively adjusted as all participating securities were issued in 2010.

18. Earnings per Share – (continued)

The following, is a summary of the elements used in calculating basic and diluted earnings per share for the years ended December 31, 2010, 2009 and 2008:

(Amounts in Thousands, except for earnings per share)	2010	2009	2008
Basics earnings per share:			
Net income attributable to AmTrust Financial Services, Inc. shareholders	$142,465	$103,223	$82,928
Less: Net income allocated to participating securities and redeemable non-controlling interest	81	—	—
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$142,384	$103,223	$82,928
Weighted average shares outstanding – basic	59,491	59,433	59,991
Less: Weighted average participating shares outstanding	38	—	—
Weighted average common shares outstanding – basic	59,453	59,433	59,991
Net income per AmTrust Financial Services, Inc. common shares – basic	$ 2.39	$ 1.74	$ 1.38
Diluted earnings per share:			
Net income attributable to AmTrust Financial Services, Inc. shareholders	$142,465	$103,223	$82,928
Less: Net income allocated to participating securities and redeemable non-controlling interest	81	—	—
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$142,384	$103,223	$82,928
Weighted average common shares outstanding – basic	59,453	59,433	59,991
Plus: Dilutive effect of stock options, other	893	521	680
Weighted average common shares outstanding – dilutive	60,346	59,954	60,671
Net income per AmTrust Financial Services, Inc. common shares – diluted	$ 2.36	$ 1.72	$ 1.37

As of December 31, 2010, there were approximately 300 anti-dilutive securities excluded from diluted earnings per share.

19. Accumulated Other Comprehensive Income (Loss)

(Amounts in thousands)	Foreign Currency Items	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2007	$ 687	$(32,375)	$ (31,688)
Current period changes, net of tax	(13,006)	(61,121)	(74,127)
Balance, December 31, 2008	(12,319)	(93,496)	(105,815)
Current period changes, net of tax	4,863	83,932	88,795
Balance, December 31, 2009	(7,456)	(9,564)	(17,020)
Current period changes, net of tax	(4,820)	21,574	16,754
Balance, December 31, 2010	$(12,276)	$ 12,010	$ (266)

20. Commitments and Contingencies

Litigation

The Company's insurance subsidiaries are named as defendants in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the loss and LAE reserves. The Company's management believes the resolution of those actions will not have a material adverse effect on the Company's financial position or results of operations.

Lease Commitments

The Company is obligated under approximately 33 leases for office space expiring at various dates through 2018. Future minimum lease payments as of December 31, 2010 under non-cancellable operating leases for each of the next five years are approximately as follows:

(Amounts in Thousands)	
2011	$ 8,070
2012	5,333
2013	3,557
2014	3,101
2015	2,844
2016 and Thereafter	5,161
	$28,066

Rent expense for the years ended December 31, 2010, 2009 and 2008 was $8,490, $6,869 and $6,437, respectively.

Employment Agreements

The Company has employment agreements with approximately 28 of its key executives and employees. The agreements terminate on varying dates through 2020, contain annual minimum levels of compensation, and contain bonuses based on the Company's achieving certain financial targets. The annual future minimums in the aggregate are as follows through 2020:

(Amounts in Thousands)	
2011	$ 9,302
2012	5,912
2013	2,478
2014	602
2015	602
2016 and Thereafter	2,825
	$21,721

21. Dividend Restriction and Risk Based Capital

The Company's insurance subsidiaries are subject to statutory and regulatory restrictions, applicable to insurance companies, imposed by the states of domicile, which limit the amount of cash dividends or distributions that they may pay and was approximately $253,000 and $202,300 as of December 31, 2010 and 2009, respectively. During 2010 and 2009, the Company received a dividend of $5,000 and $4,500, respectively, from one of its subsidiaries. The Company's insurance subsidiaries did not pay any dividends in 2008.

21. Dividend Restriction and Risk Based Capital – (continued)

Property and casualty insurance companies in the United States are subject to certain Risk-Based Capital (“RBC”) requirements as specified by the National Association of Insurance Commissioners. Under such requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined on various risk factors. As of December 31, 2010 and 2009, the capital and surplus of the Company’s eight insurance subsidiaries domiciled in the United States exceeded the RBC requirements.

22. Statutory Financial Data

The Company’s insurance subsidiaries file financial statements in accordance with statutory accounting practices (“SAP”) prescribed or permitted by domestic or foreign insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between domestic and foreign jurisdictions. The principal differences relate to (1) acquisition costs incurred in connection with acquiring new business which are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) limitation on net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and loss expense, and unearned premium reserves are presented gross of reinsurance with a corresponding asset recorded; and (4) fixed maturity portfolios that are carried at fair value and changes in fair value are reflected directly in unassigned surplus, net of related deferred taxes.

Statutory surplus and net income for insurance operations as reported to regulatory authorities were approximately as follows:

(Amounts in thousands) December 31, 2010	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$186,470	$203,052	$11,473	$13,104
RIC (domestic)	43,957	50,023	4,445	6,197
WIC (domestic)	60,943	62,538	5,234	7,401
AIIC (domestic)	58,391	63,508	10,988	10,660
SNIC (domestic)	16,921	17,665	1,372	1,158
MCIC (domestic)	11,599	12,032	793	655
ALIC (domestic)	2,081	2,146	8	8
AICK (domestic)	12,718	13,372	836	817
AEL (United Kingdom)	89,710	89,710	14,161	14,223
AIU (Ireland)	128,028	135,880	22,117	17,589
AII (Bermuda)	286,714	406,088	52,312	52,312

(Amounts in thousands) December 31, 2009	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$167,316	$178,467	$15,259	$16,338
RIC (domestic)	36,782	40,460	8,772	9,413
WIC (domestic)	52,875	53,511	6,806	7,402
AIIC (domestic)	51,636	58,646	10,973	11,425
SNIC (domestic)	15,641	16,252	231	149
MCIC (domestic)	10,967	11,258	514	422
ALIC (domestic)	2,116	2,121	11	—
AICK (domestic)	9,648	10,035	(263)	(207)
AEL (United Kingdom)	37,785	37,785	2,015	2,266
AIU (Ireland)	96,329	111,156	15,387	13,999
AII (Bermuda)	224,823	327,681	17,891	17,891

22. Statutory Financial Data – (continued)

(Amounts in thousands) December 31, 2008	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$146,699	$164,027	$ 7,680	$13,169
RIC (domestic)	30,702	32,442	5,693	6,145
WIC (domestic)	37,167	41,069	5,109	5,877
AIIC (domestic)	45,068	44,295	13,507	11,399
SNIC (domestic)	15,276	15,805	89	525
MCIC (domestic)	10,390	10,556	113	173
ALIC (domestic)	2,085	2,122	21	33
AICK (domestic)	9,991	10,160	76	380
AEL (United Kingdom)	18,519	18,519	5,459	5,459
AIU (Ireland)	76,067	93,242	8,267	17,204
AII (Bermuda)	183,063	220,610	1,346	1,346

23. Geographic Information

Three of the Company’s insurance subsidiaries (AII, AIU and AEL) operate outside the United States. Their assets and liabilities are located principally in the countries where the insurance risks are written or assumed. For 2010, 34% of the Company’s gross written premiums related to foreign risks, of which 37% were written from the United Kingdom. For 2009, 21% of the Company’s gross written premiums related to foreign risks, of which 47% were written from the United Kingdom. For 2008, 19% of the Company’s gross written premiums related to foreign risks, of which 44% were written from the United Kingdom. As of December 31, 2010 and 2009, approximately 47% and 46%, respectively, of the consolidated assets were located outside the United States. For the years ended 2010, 2009 and 2008, approximately 70%, 66% and 69%, respectively, of the consolidated revenues earned were located in or derived from foreign countries. The foreign and domestic components of income before other income (expense), income taxes and equity in earnings (loss) of unconsolidated subsidiaries are as follows:

(Amounts in Thousands) December 31,	2010	2009	2008
Domestic	$76,927	$78,941	$68,701
Foreign	94,837	66,988	48,462

The following table summarizes the Company’s operations by major geographic segment:

(Amounts in Thousands)	Domestic	Bermuda	Other Foreign
December 31, 2010:			
Revenue	$299,340	$603,827	$99,291
Property and equipment	30,340	—	549
December 31, 2009:			
Revenue	$249,934	$429,042	$61,235
Property and equipment	15,428	—	430
December 31, 2008:			
Revenue	$176,085	$329,287	$71,159
Property and equipment	14,840	—	267

24. Segments

The Company currently operates four business segments, Small Commercial Business; Specialty Risk and Extended Warranty; Specialty Program and Personal Lines Reinsurance (began in 2010 with the investment in ACAC). The ''Corporate & Other'' segment represents the activities of the holding company as well as a portion of service and fee revenue. In determining total assets (excluding cash and invested assets) by segment, the Company identifies those assets that are attributable to a particular segment such as deferred acquisition cost, reinsurance recoverable, goodwill, intangible assets and prepaid reinsurance while the remaining assets are allocated based on net written premium by segment. In determining cash and invested assets by segment, the Company matches certain identifiable liabilities such as unearned premium and loss and loss adjustment expense reserves by segment. The remaining cash and invested assets are then allocated based on net written premium by segment. Investment income and realized gains (losses) are determined by calculating an overall annual return on cash and invested assets and applying that overall return to the cash and invested assets by segment. Ceding commission revenue is allocated to each segment based on that segment's proportionate share of the Company's overall acquisition costs. Interest expense is allocated based on net written premium by segment. Income taxes are allocated on a pro rata basis based on the Company's effective tax rate. Additionally, management reviews the performance of underwriting income in assessing the performance of and making decisions regarding the allocation of resources to the segments. Underwriting income excludes, primarily, service and fee revenue, investment income and other revenues, other expenses, interest expense and income taxes. Management believes that providing this information in this manner is essential to providing Company's shareholders with an understanding of the Company's business and operating performance.

The following tables summarize business segments as follows for 2010, 2009 and 2008:

(Amounts in thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Year ended December 31, 2010:						
Gross premium written	$ 465,951	$ 748,525	$ 264,051	$ 82,295	—	$1,560,822
Net premium written	243,146	362,100	139,685	82,295	—	827,226
Change in unearned premium	9,296	(58,517)	568	(32,914)	—	(81,567)
Net earned premium	252,442	303,583	140,253	49,381	—	745,659
Ceding commission – primarily related party	66,282	48,015	23,964	—	—	138,261
Loss and loss adjustment expense	(154,442)	(191,149)	(94,261)	(31,629)	—	(471,481)
Acquisition costs and other underwriting expenses	(128,142)	(98,547)	(60,071)	(16,049)	—	(302,809)
	(282,584)	(289,696)	(154,332)	(47,678)	—	(774,290)
Underwriting income	36,140	61,902	9,885	1,703	—	109,630
Service, fee and other revenues	19,696	29,729	—	—	12,642	62,067
Investment income and realized gain (loss)	21,951	20,339	11,616	2,564	—	56,470
Other expenses	(17,966)	(24,443)	(10,397)	(3,597)	—	(56,403)
Interest expense	(4,110)	(5,591)	(2,378)	(823)	—	(12,902)
Foreign currency gain	—	684	—	—	—	684
Gain on life settlement contracts	3,776	5,138	2,185	756	—	11,855
Provision for income taxes	(17,042)	(25,142)	(3,126)	(173)	(3,622)	(49,105)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	—	24,044	24,044
Non-controlling interest	(1,235)	(1,679)	(714)	(247)	—	(3,875)
Net income attributable to AmTrust Financial Services, Inc.	$ 41,210	$ 60,937	$ 7,071	$ 183	$33,064	$ 142,465

24. Segments – (continued)

(Amounts in thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Corporate and Other	Total
Year ended December 31, 2009:					
Gross premium written	$ 469,627	$ 461,338	$ 267,981	$ —	$1,198,946
Net premium written	255,496	245,604	142,326	—	643,426
Change in unearned premium	(16,525)	(55,378)	2,359	—	(69,544)
Net earned premium	238,971	190,226	144,685	—	573,882
Ceding commission – primarily related party	59,415	25,909	28,607	—	113,931
Loss and loss adjustment expense	(137,525)	(98,797)	(91,449)	—	(327,771)
Acquisition costs and other underwriting expenses	(119,734)	(55,551)	(68,994)	—	(244,279)
	(257,259)	(154,348)	(160,443)	—	(572,050)
Underwriting income	41,127	61,787	12,849	—	115,763
Service and fee income	12,323	9,841	—	8,526	30,690
Investment income and realized gain (loss)	9,880	6,731	5,097	—	21,708
Other expenses	(9,073)	(8,114)	(5,045)	—	(22,232)
Interest expense	(6,890)	(6,162)	(3,832)	—	(16,884)
Foreign currency gain	—	2,459	—	—	2,459
Provision for income taxes	(9,891)	(13,894)	(1,894)	(1,780)	(27,459)
Equity in earnings of unconsolidated subsidiaries — related party	—	—	—	(822)	(822)
Net income	$ 37,476	$ 52,648	$ 7,175	$ 5,924	$ 103,223

24. Segments – (continued)

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Corporate and Other	Total
Year ended December 31, 2008:					
Gross premium written	$ 458,842	$ 415,921	$ 235,811	$ —	$1,110,574
Net premium written	226,573	209,230	119,110	—	554,913
Change in unearned premium	(53,546)	(55,294)	(6,976)	—	(115,816)
Net earned premium	173,027	153,936	112,134	—	439,097
Ceding commission – primarily related party	59,032	26,998	29,444	—	115,474
Loss and loss adjustment expense	(90,004)	(78,832)	(69,467)	—	(238,303)
Acquisition costs and other underwriting expenses	(97,856)	(47,637)	(58,254)	—	(203,747)
	(187,860)	(126,469)	(127,721)	—	442,050
Underwriting income	44,199	54,465	13,857	—	112,521
Service and fee revenues	12,646	8,750	—	7,582	28,978
Investment income, realized gain (loss) and loss on managed assets	(2,024)	(1,301)	(793)	(2,900)	(7,018)
Other expenses	(7,958)	(6,337)	(3,023)	—	(17,318)
Interest expense	(7,844)	(6,688)	(3,745)	—	(18,277)
Foreign currency gain	—	2,700	—	—	2,700
Provision for income taxes	(7,899)	(10,445)	(1,275)	(948)	(20,567)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	(991)	(991)
Non-controlling interest in net income of subsidiary	—	—	—	2,900	2,900
Net income	$ 31,120	$ 41,144	$ 5,021	$ 5,643	$ 82,928

(Amounts in thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and other	Total
As of December 31, 2010:						
Fixed assets	$ 9,839	$ 13,386	$ 5,694	$ 1,970	$ —	$ 30,889
Goodwill and intangible assets	87,001	95,737	15,088	—	—	197,826
Total assets	1,581,946	1,716,980	741,835	141,692	—	4,182,453
As of December 31, 2009:						
Fixed assets	$ 6,471	$ 5,788	$ 3,599	$ —	$ —	$ 15,858
Goodwill and intangible assets	80,849	19,319	15,660	—	—	115,828
Total assets	1,582,247	1,001,347	816,770	—	—	3,400,364

25. Equity Investment in Unconsolidated Subsidiary

The following table summarizes total assets, total liabilities, and results of operations for the Company's unconsolidated equity method investment in ACAC for the year ended December 31, 2010:

(Amounts in thousands)	As of December 31, 2010
Balance sheet data:	
Investments	$ 840,504
Premiums and other receivables	363,505
Reinsurance recoverable – unpaid loss	695,023
Total assets	2,229,662
Reserve for insurance loss and loss adjustment expenses	1,081,630
Unearned insurance premiums and revenue	443,910
Total liabilities	1,903,984
	For the period between March 1, 2010 through December 31, 2010
Results of operations:	
Gross written premium	$904,553
Net earned premium	560,917
Income from continuing operations	70,034
Net income	119,211

26. Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results of operations:

	2010			
(Amounts in Thousands)	March 31,	June 30,	September 30,	December 31,
Earned premium	$148,100	$196,261	$190,885	$210,413
Investment income	13,599	14,686	10,952	11,280
Net income	38,700	30,823	43,149	33,688
Income attributable to Common Shareholders	38,700	30,823	39,296	33,646
Basic EPS	0.65	0.52	0.65	0.57
Diluted EPS	0.64	0.51	0.65	0.56

	2009			
	March 31,	June 30,	September 30,	December 31,
Earned premium	$132,423	$136,803	$145,292	$159,364
Investment Income	13,589	13,582	14,079	13,215
Net income	24,162	26,771	24,221	28,069
Basic EPS	0.40	0.45	0.41	0.47
Diluted EPS	0.40	0.45	0.40	0.47

26. Quarterly Financial Data (Unaudited) – (continued)

	2008			
	March 31,	June 30,	September 30,	December 31,
Earned premium	$97,413	$115,945	$92,333	$133,406
Investment Income	13,531	14,190	15,391	16,346
Net income	22,263	26,350	9,361	24,954
Basic EPS	0.37	0.44	0.16	0.42
Diluted EPS	0.37	0.43	0.15	0.41

During the three months ended March 31, 2010 and December 31, 2010, the Company recorded a retrospective gain of $10,450 and $1,263, respectively, related to an acquisition gain on ACAC for the three months ended March 31, 2010 and related to a gain on the purchase of life settlement contracts in the three months ended September 30, 2010. The impact of the retrospective gain on net income and earnings per share was $6,792 and $0.11 for the three months ended March 31, 2010. The impact of the retrospective gain on net income and income attributable to common shareholders was $821 and $410, respectively.

27. Subsequent Event

On January 28, 2011, the Company entered into a $150,000 credit agreement (the ‘‘Credit Agreement’’), among JPMorgan Chase Bank, N.A., as Administrative Agent, The Bank of Nova Scotia, as Syndication Agent, SunTrust Bank, as Documentation Agent, and the various lending institutions party thereto. The credit facility is a revolving credit facility with a letter of credit sublimit of $50,000 and an expansion feature not to exceed $50,000. Proceeds of borrowings under the Credit Agreement may be used for working capital, acquisitions and general corporate purposes. In connection with entering into the Credit Agreement, the Company terminated its existing Loan Agreement, dated as of June 3, 2008, with JPMorgan Chase Bank, N.A., and its Uncommitted Line of Credit Letter Agreement, dated as of June 3, 2008, with JPMorgan Chase Bank, N.A. The Company used proceeds of borrowings under the Credit Agreement to pay off the $6,666 principal balance outstanding under the Loan Agreement and to repay the related fixed interest rate swap agreement. Letters of credit in the amount of approximately $27,800 that were issued and outstanding under the Uncommitted Line of Credit Letter Agreement will be deemed issued under the Credit Agreement. The Uncommitted Line of Credit Letter Agreement had no outstanding principal balance at termination.

The Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. There are also financial covenants that require the Company to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. The Credit Agreement also provides for customary events of default, with corresponding grace periods, including failure to pay principal when due, failure to pay interest or fees within three days after becoming due, failure to comply with covenants, breaches of representations and warranties, default under certain other indebtedness, certain insolvency or receivership events affecting the Company and its subsidiaries, the occurrence of certain material judgments, or a change in control of the Company. Upon the occurrence and during the continuation of an event of default, the administrative agent, upon the request of the requisite percentage of the lenders, shall terminate the obligations of the lenders to make loans and to issue letters of credit under the Credit Agreement, declare the Company's obligations under the Credit Agreement to become immediately due and payable and/or exercise any and all remedies and other rights under the Credit Agreement. The Credit Agreement has a maturity date of January 28, 2014.

27. Subsequent Event – (continued)

ABR borrowings (which are borrowings bearing interest at a rate determined by reference to the Alternate Base Rate) under the Credit Agreement will bear interest at (x) the greatest of (a) the administrative agent's Prime Rate, (b) the Federal Funds Effective Rate plus 0.5 percent or (c) the Adjusted LIBO Rate for a one month interest period on such day plus 1 percent, plus (y) a margin that is adjusted on the basis of the Company's consolidated leverage ratio. Eurodollar borrowings under the Credit Agreement will bear interest at the Adjusted LIBO Rate for the Interest Period in effect plus a margin that is adjusted on the basis of the Company's consolidated leverage ratio. Fees payable by the Company under the Credit Agreement include a letter of credit participation fee (the margin applicable to Eurodollar borrowings), a letter of credit fronting fee with respect to each letter of credit (.125%) and a commitment fee on the available commitments of the lenders (a range of .35% to .45% based on the Company's consolidated leverage ratio).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
AmTrust Financial Services, Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of AmTrust Financial Services, Inc. as of December 31, 2011 and 2010 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmTrust Financial Services, Inc. at December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2012 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
March 15, 2012

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Par Value per Share)

	December 31,	
	2011	2010
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at market value (amortized cost $1,382,863; $1,192,844)	$1,394,243	$1,208,813
Equity securities, available-for-sale, at market value (cost $34,041; $18,577)	35,600	17,412
Short-term investments	128,565	32,137
Equity investments in unconsolidated subsidiaries – related parties	87,498	77,136
Other investments	14,588	21,514
Total investments	1,660,494	1,357,012
Cash and cash equivalents	406,847	192,925
Restricted cash and cash equivalents	23,104	17,130
Accrued interest and dividends	12,644	7,979
Premiums receivable, net	932,992	727,561
Reinsurance recoverable (related party $597,525; $386,932)	1,098,569	775,432
Prepaid reinsurance premium (related party $429,124; $283,899)	584,871	484,960
Prepaid expenses and other assets (recorded at fair value $131,387; $22,155)	292,849	155,799
Federal income tax receivable	13,024	10,269
Deferred policy acquisition costs	280,991	224,671
Property and equipment, net	61,553	30,889
Goodwill	147,654	106,220
Intangible assets, net	166,962	91,606
	$5,682,554	$4,182,453
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss expense reserves	$1,879,175	$1,263,537
Unearned premiums	1,366,170	1,024,965
Ceded reinsurance premiums payable (related party $222,408; $95,629)	337,508	266,314
Reinsurance payable on paid losses	14,731	11,343
Funds held under reinsurance treaties	49,249	3,217
Note payable on collateral loan – related party	167,975	167,975
Securities sold but not yet purchased, at market	55,942	8,847
Securities sold under agreements to repurchase, at contract value	191,718	347,617
Accrued expenses and other current liabilities (recorded at fair value $7,311; $4,711)	267,643	193,008
Deferred income taxes	108,775	9,883
Debt	279,600	144,781
Total liabilities	4,718,486	3,441,487
Commitments and contingencies		
Redeemable non-controlling interest	600	600
Stockholders' equity:		
Common stock, $.01 par value; 100,000 shares authorized, 84,906 and 84,314 issued in 2011 and 2010, respectively; 60,106 and 59,565 outstanding in 2011 and 2010, respectively	849	844
Preferred stock, $.01 par value; 10,000 shares authorized	—	—
Additional paid – in capital	582,321	548,731
Treasury stock at cost; 24,800 and 24,816 shares in 2011 and 2010, respectively	(300,365)	(300,489)
Accumulated other comprehensive loss	(9,999)	(266)
Retained earnings	617,757	467,694
Total AmTrust Financial Services, Inc. equity	890,563	716,514
Non-controlling interest	72,905	23,852
Total stockholders' equity	963,468	740,366
	$5,682,554	$4,182,453

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)

	Year Ended December 31,		
	2011	2010	2009
Revenues:			
Premium income:			
Net premium written	$ 1,276,597	$ 827,226	$ 643,426
Change in unearned premium	(239,736)	(81,567)	(69,544)
Net earned premium	1,036,861	745,659	573,882
Ceding commission – primarily related party	153,953	138,261	113,931
Service and fee income (related parties $16,700; $12,322; $8,622)	108,660	62,067	30,690
Net investment income	55,515	50,517	55,287
Net realized gain (loss) on investments	2,768	5,953	(33,579)
Total revenues	1,357,757	1,002,457	740,211
Expenses:			
Loss and loss adjustment expense	678,333	471,481	327,771
Acquisition costs and other underwriting expenses	398,404	302,809	244,279
Other	86,611	56,403	22,232
Total expenses	1,163,348	830,693	594,282
Income before other income (expense), income taxes and equity in earnings (loss) of unconsolidated subsidiaries	194,409	171,764	145,929
Other income (expenses):			
Foreign currency gain (loss)	(2,418)	684	2,459
Interest expense	(16,079)	(12,902)	(16,884)
Acquisition gain on purchase	5,850	—	—
Gain on investment in life settlement contracts net of profit commission	46,892	11,855	—
Total other income (expenses)	34,245	(363)	(14,425)
Income before income taxes and equity in earnings (loss) of unconsolidated subsidiaries	228,654	171,401	131,504
Provision for income taxes	42,372	47,053	27,459
Income before equity in earnings (loss) of unconsolidated subsidiaries	186,282	124,348	104,045
Equity in earnings (loss) of unconsolidated subsidiaries – related party	7,871	24,044	(822)
Net income	194,153	148,392	103,223
Net income attributable to non-controlling interests of subsidiaries	(23,719)	(5,927)	—
Net income attributable to AmTrust Financial Services, Inc.	$ 170,434	$ 142,465	$ 103,223
Earnings per common share:			
Basic earnings per share	$ 2.85	$ 2.39	$ 1.74
Diluted earnings per share	$ 2.77	$ 2.36	$ 1.72
Dividends declared per common share	$ 0.34	$ 0.29	$ 0.23
Weighted average common shares outstanding:			
Basic	59,836	59,453	59,433
Diluted	61,582	60,346	59,954
Net realized gain (loss) on investments:			
Total other-than-temporary impairment losses	$ (4,411)	$ (21,196)	$ (24,778)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(4,411)	(21,196)	(24,778)
Other net realized gain (loss) on investments	7,179	27,149	(8,801)
Net realized investment gain (loss)	$ 2,768	$ 5,953	$ (33,579)

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)
Years Ended December 31, 2011, 2010, 2009

	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2008	842	—	$539,421	$(294,803)	$(105,815)	$252,903	$392,548
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	103,223	103,223
Foreign currency translation	—	—	—	—	4,863	—	4,863
Unrealized holding loss on investments	—	—	—	—	63,370	—	63,370
Reclassification adjustment for securities sold during the year	—	—	—	—	20,562	—	20,562
Total comprehensive income							192,018
Stock option compensation	—	—	4,241	—	—	—	4,241
Stock repurchase	—	—	—	(6,086)	—	—	(6,086)
Exercise of stock options	—	—	315	—	—	—	315
Common stock dividend	—	—	—	—	—	(13,644)	(13,644)
Balance, December 31, 2009	842	—	543,977	(300,889)	(17,020)	342,482	569,392
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	148,392	148,392
Foreign currency translation	—	—	—	—	(4,820)	—	(4,820)
Unrealized holding gain on investments	—	—	—	—	8,414	—	8,414
Reclassification adjustment for securities sold during the year	—	—	—	—	13,160	—	13,160
Total comprehensive income							165,146
Non-controlling interest in subsidiaries	—	—	—	—	—	(5,927)	(5,927)
Comprehensive income attributable to AmTrust							159,219
Issuance of restricted stock	—	—	(400)	400	—	—	—
Stock option compensation	—	—	3,386	—	—	—	3,386
Exercise of stock options	2	—	1,768	—	—	—	1,770
Common stock dividend	—	—	—	—	—	(17,253)	(17,253)
Balance, December 31, 2010	844	—	548,731	(300,489)	(266)	467,694	716,514
Comprehensive income, net of tax:							
Net income	—	—	—	—	—	194,153	194,153
Foreign currency translation	—	—	—	—	(4,815)	—	(4,815)
Change in fair value of derivative	—	—	—	—	(2,280)	—	(2,280)
Unrealized holding loss on investments	—	—	—	—	4,518	—	4,518
Reclassification adjustment for securities sold during the year	—	—	—	—	(7,156)	—	(7,156)
Total comprehensive income							184,420
Non-controlling interest in subsidiaries	—	—	—	—	—	(23,719)	(23,719)
Comprehensive income attributable to AmTrust							160,701
Equity component of convertible senior notes, net of income tax and issue costs	—	—	22,723	—	—	—	22,723
Issuance of restricted stock	—	—	(124)	124	—	—	—
Stock option compensation	—	—	5,571	—	—	—	5,571
Exercise of stock options	5	—	5,420	—	—	—	5,425
Common stock dividend	—	—	—	—	—	(20,371)	(20,371)
Balance, December 31, 2011	849	—	$582,321	$(300,365)	$ (9,999)	$617,757	$890,563
Non-controlling interest in equity of consolidated Subsidiaries:							
Balance, December 31, 2009							$ —
Capital contributions to subsidiaries							17,925
Income attributable to non-controlling interests							5,927
Balance, December 31, 2010							$ 23,852
Capital contribution to subsidiaries							25,334
Income attributable to non-controlling interests							23,719
Balance, December 31, 2011							$ 72,905

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net income	$ 194,153	$ 148,392	$ 103,223
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	50,000	18,429	8,791
Equity (earnings) losses and gain on investment in unconsolidated subsidiaries	(7,871)	(24,044)	822
Gain on investment in life settlement contracts	(46,892)	(11,855)	—
Realized (gain) loss on marketable securities	(7,179)	(27,149)	8,801
Acquisition gain on purchase	(5,850)	—	—
Non-cash write-down of marketable securities	4,411	21,196	24,778
Discount on notes payable	462	772	1,067
Stock based compensation	5,571	3,386	4,241
Bad debt expense	7,287	6,037	4,843
Foreign currency (gain) loss	2,418	(684)	(2,459)
Changes in assets – (increase) decrease:			
Premiums and notes receivable	(186,721)	(208,677)	(81,137)
Reinsurance recoverable	(174,988)	(132,111)	(58,499)
Deferred policy acquisition costs, net	(56,320)	(44,492)	(76,214)
Prepaid reinsurance premiums	(99,911)	(74,407)	(38,523)
Prepaid expenses and other assets	(40,229)	(48,210)	(8,696)
Changes in liabilities – increase (decrease):			
Reinsurance premium payable	71,194	132,238	(1,700)
Loss and loss expense reserves	283,978	171,593	77,885
Unearned premiums	315,208	153,186	111,864
Funds held under reinsurance treaties	(5,683)	2,527	462
Accrued expenses and other current liabilities	44,071	(63,402)	27,191
Deferred tax asset (liability)	(52,551)	3,626	57,673
Net cash provided by operating activities	294,558	26,351	164,413
Cash flows from investing activities:			
Purchases of available for sale fixed maturities	(2,065,393)	(3,711,080)	(498,035)
Purchases of equity securities	(37,410)	(28,321)	(26,893)
Purchases of other investments	(611)	(5,284)	(1,398)
Sales of held to maturity fixed maturities	—	—	48,881
Sales of available for sale fixed maturities	2,122,923	3,573,660	350,837
Sales of equity securities	17,634	65,531	21,637
Sales of other investments	6,776	200	—
Net (purchases) sales of short term investments	(96,428)	(872)	136,580
Acquisition of and capitalized premiums for life settlement contracts	(53,363)	(14,574)	—
Receipt of life settlement contract proceeds	10,530	—	—
Acquisition of renewal rights and goodwill	(30,388)	—	(7,904)
Loss portfolio transfer, net of cash obtained	28,969	—	—

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(In Thousands)

	Years Ended December 31,		
	2011	2010	2009
Acquisition of subsidiaries, net of cash obtained	43,950	6,929	6,545
Investment in ACAC	—	(53,055)	—
Acquisition of Warrantech, net of cash obtained	—	(9,056)	—
Acquisition of Risk Services, net of cash obtained	—	(10,846)	—
Increase in restricted cash and cash equivalents	(5,974)	(8,180)	(2,588)
Purchase of property and equipment	(38,601)	(14,722)	(5,519)
Net cash (used in) provided by investing activities	(97,386)	(209,670)	22,143
Cash flows from financing activities:			
Repurchase agreements, net	(155,899)	174,843	(111,718)
Revolving credit facility borrowings	123,200	—	—
Revolving credit facility payments	(123,200)	—	—
Convertible senior notes proceeds	175,000	—	—
Secured loan agreement borrowings	10,800	—	—
Secured loan agreements payments	(782)	—	—
Term loan payment	(6,667)	(13,333)	(13,333)
Non-interest bearing note payment	(7,500)	(7,500)	(7,500)
Financing fees	(6,644)	—	—
Repurchase of common stock	—	—	(6,086)
Capital contribution to subsidiaries	25,334	11,025	—
Stock option exercise and other	5,425	1,770	315
Dividends distributed in common stock	(19,712)	(16,647)	(13,088)
Net cash provided by (used in) financing activities	19,355	150,158	(151,410)
Effect of exchange rate changes on cash	(2,605)	1,226	4,023
Net increase (decrease) in cash and cash equivalents	213,922	(31,935)	39,169
Cash and cash equivalents, beginning year	192,925	224,860	185,691
Cash and cash equivalents, end of year	$ 406,847	$ 192,925	$ 224,860
Supplemental Cash Flow Information			
Interest	$ 12,931	$ 13,405	$ 14,601
Income tax payments	14,158	33,480	18,802

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Data)

1. Nature of Operations

AmTrust Financial Services, Inc. (the ''Company'') is an insurance holding company formed under the laws of Delaware. Through its wholly-owned subsidiaries, the Company provides specialty property and casualty insurance focusing on workers' compensation and commercial package coverage for small business, specialty risk and extended warranty coverage, and property and casualty coverage for middle market business. The Company also provides reinsurance, primarily on personal and commercial automotive business.

The Company transacts business through eleven insurance company subsidiaries: Technology Insurance Company, Inc. (''TIC''), Rochdale Insurance Company (''RIC''), Wesco Insurance Company (''WIC''), Associated Industries Insurance Company, Inc. (''AIIC''), Milwaukee Casualty Insurance Company (''MCIC''), Security National Insurance Company (''SNIC''), AmTrust Insurance Company of Kansas, Inc. (''AICK'') and AmTrust Lloyd's Insurance Company of Texas (''ALIC''), which are domiciled in New Hampshire, New York, Delaware, Florida, Wisconsin, Texas, Kansas and Texas, respectively; and AmTrust International Insurance Ltd. (''AII''), AmTrust International Underwriters Limited (''AIU'') and AmTrust Europe, Ltd. (''AEL''), which are domiciled in Bermuda, Ireland and England, respectively.

2. Significant Accounting Policies

Basis of Reporting — The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries. The Company uses the equity method of accounting for its investment in American Capital Acquisition Corporation (''ACAC'') in which it owns a 21.25% ownership interest. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Premiums — Insurance premiums, other than specialty risk and extended warranty, are recognized as earned on the straight-line basis over the contract period. Insurance premiums on specialty risk and extended warranty are earned based on an estimated program coverage period. These estimates are based on the expected distribution of coverage periods by contract at inception, because a single contract may contain multiple coverage period options, these estimates are revised based on the actual coverage period selected by the insured. Unearned premiums represent the portion of premiums written which is applicable to the unexpired term of the contract or policy in force. Premium adjustments on contracts and audit premiums are based on estimates made over the contract period. Premiums earned but not yet billed to insureds are estimated and accrued, net of related costs. These estimates are subject to the effects of trends in payroll audit adjustments. Although considerable variability is inherent in such estimates, management believes that the accrual for earned but unbilled premiums is reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The Company historically has used a percentage of premium for establishing its allowance for doubtful accounts. The Company reviews its bad debt write-offs at least annually and adjusts its premium percentage as required. Allowance for doubtful accounts were approximately $11,682 and $10,420 at December 31, 2011 and 2010, respectively.

Ceding Commission Revenue — Commissions on reinsurance premiums ceded are earned in a manner consistent with the recognition of the direct acquisition costs of underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured. Certain reinsurance agreements contain provisions whereby the ceding commission rates vary based on the loss experience under the agreements. The Company records ceding commission revenue based on its current estimate of subject losses. The Company records adjustments to the ceding commission revenue in the period that changes in the estimated losses are determined.

2. Significant Accounting Policies – (continued)

Loss and Loss Adjustment Expenses — Loss and loss adjustment expenses (''LAE'') represent the estimated ultimate net costs of all reported and unreported losses incurred through December 31, 2011. The reserves for unpaid losses and LAE are estimated using individual case-basis valuations and statistical analyses and are not discounted. Although considerable variability is inherent in the estimates of reserves for losses and LAE, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

Investments — The Company accounts for its investments in accordance with the Financial Accounting Standards Board (''FASB'') Accounting Standards Codification (''ASC'') 320 *Investments — Debt and Equity Securities*, which requires that fixed-maturity and equity securities that have readily determined fair values be segregated into categories based upon the Company's intention for those securities. In accordance with ASC 320, the Company has classified its fixed-maturities and equity securities as available-for-sale. The Company may sell its available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors. Available for sale fixed-maturity securities and equity securities are reported at their estimated fair values based on quoted market prices or a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of comprehensive income in stockholders' equity. Realized gains and losses are determined on the specific identification method.

Quarterly, the Company's Investment Committee (''Committee'') evaluates each security that has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment (''OTTI''). The Company generally considers an investment to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion or more) for over 24 months. In addition, the Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

- the current fair value compared to amortized cost;
- the length of time the security's fair value has been below its amortized cost;
- specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments;
- whether management intends to sell the security and, if not, whether it is not more than likely than not that the Company will be required to sell the security before recovery of its amortized cost basis;
- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings;
- the occurrence of a discrete credit event resulting in the issuer defaulting on material outstanding obligation or the issuer seeking protection under bankruptcy laws; and
- other items, including company management, media exposure, sponsors, marketing and advertising agreements, debt restructurings, regulatory changes, acquisitions and dispositions, pending litigation, distribution agreements and general industry trends.

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. We write down investments immediately that we consider to be impaired based on the above criteria collectively.

2. Significant Accounting Policies – (continued)

Based on guidance in ASC 320-10-65, in the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is not more than likely than not that such holder will be required to sell the debt security before recovery of its amortized cost basis, is required to separate the decline in fair value into (a) the amount representing the credit loss and (b) the amount related to other factors. The amount of total decline in fair value related to the credit loss shall be recognized in earnings as an OTTI with the amount related to other factors recognized in accumulated other comprehensive loss net loss, net of tax. OTTI credit losses result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of the loss realization.

The Company has the following types of investments:

(a) Short-term investments — Short term investments are carried at cost, which approximates fair value, and include investments with maturities between 91 days and less than one year at date of acquisition. As of December 31, 2011 and 2010, short term investments consisted primarily of money market investments.

(b) Fixed maturities and equity securities — Fixed maturities and equity securities (common stocks, mutual funds and non-redeemable preferred stock) are classified as available-for-sale and carried at fair value. Unrealized gains or losses on available-for-sale securities are reported as a component of accumulated other comprehensive income.

(c) Mortgage and asset backed securities — For mortgage and asset backed securities, the Company recognizes income using the retrospective adjustment method based on prepayments and the estimated economic life of the securities. The effective yield reflects actual payments to date plus anticipated future payments.

(d) Limited partnerships — The Company uses the equity method of accounting for investments in limited partnerships in which its ownership interest of the limited partnership enables the Company to influence the operating or financial decisions of the investee company, but the Company's interest in the limited partnership does not require consolidation. The Company's proportionate share of equity in net income of these unconsolidated affiliates is reported in net investment income.

(e) Derivatives and hedging activities — The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio. Derivatives are financial arrangements among two or more parties with returns linked to an underlying equity, debt, commodity, asset, liability, foreign exchange rate or other index. Unless subject to a scope exclusion, the Company carries all derivatives on the consolidated balance sheet at fair value. For derivatives that do not qualify for hedge accounting, the changes in fair value of the derivative are presented as a component of operating income. The Company primarily utilizes the following types of derivatives:

- Credit default swap contracts ("CDS"), which, are valued in accordance with the terms of each contract based on the current interest rate spreads and credit risk of the referenced obligation of the underlying issuer and interest accrual through valuation date. Fair values are based on the price of the underlying bond on the valuation date. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract. Such amounts are limited to the total equity of the account;
- Interest rate swaps ("IS"), which are valued in terms of the contract between the Company and the issuer of the swaps, are based on the difference between the stated floating rate of the underlying indebtedness, and a predetermined fixed rate for such indebtedness with the result that the indebtedness carries a net fixed interest rate; and

2. Significant Accounting Policies – (continued)

- Contracts for difference contracts (''CFD''), which, are valued based on the market price of the underlying stock. The Company may be required to deposit collateral with the counterparty if the market values of the contract fall below a stipulated amount in the contract.

(f) Securities sold under agreements to repurchase, at contract value — Securities sold under agreements to repurchase are accounted for as collateralized borrowing transactions and are recorded at their contracted repurchase amounts, plus accrued interest. The Company minimizes the credit risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring exposure and collateral value and generally requiring additional collateral to be deposited with the Company when necessary.

Net investment income consists primarily of interest and dividends less expenses. Interest on fixed maturities, adjusted for any amortization of premium or discount, is recorded as income when earned. Investment expenses are accrued as incurred. Realized investment gains or losses are computed using the specific costs of securities sold, and, if applicable, include write-downs on investments having other-than-temporary decline in value.

Fair Value of Financial Instruments — The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 820 *Fair Value Measurements and Disclosures*. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. Additionally, valuation of fixed maturity investments is more subjective when markets are less liquid due to lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur. Fair values of other financial instruments approximate their carrying values.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in the Level 1 hierarchy. The Company receives the quoted market prices from nationally recognized third-party pricing services (''pricing service''). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value. This pricing method is used, primarily, for fixed maturities. The fair value estimates provided by the pricing service are included in the Level 2 hierarchy. If the Company determines that the fair value estimate provided by the pricing service does not represent fair value or if quoted market prices and an estimate from pricing services are unavailable, the Company produces an estimate of fair value based on dealer quotations of the bid price for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, the Company will then determine if the estimate is Level 2 or Level 3 hierarchy.

Fixed Maturities. The Company utilized a pricing service to estimate fair value measurements for all of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted market prices in active markets. Since fixed maturities other than U.S. treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements using relevant market data, benchmark curves, sector groupings and matrix pricing. The pricing service utilized by the Company has indicated it will produce an estimate of fair value only if there is verifiable information to produce a valuation. As the fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes, the estimates of fair value other than U.S. Treasury securities are included in Level 2 of the hierarchy. U.S. Treasury securities are included in the amount disclosed in

2. Significant Accounting Policies – (continued)

Level 1 as the estimates are based on unadjusted prices. The Company's Level 2 investments include obligations of U.S. government agencies, municipal bonds, corporate debt securities and other mortgage backed securities.

Equity Securities. For public common and preferred stocks, the Company receives estimates from a pricing service that are based on observable market transactions and includes these estimates in Level 1 hierarchy.

Other Investments. The Company has approximately 1% of its investment portfolio, in limited partnerships or hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy. The Company has determined that its investments in Level 3 securities are not material to its financial position or results of operations.

Derivatives. The Company estimates fair value using information provided by the portfolio manager for IS and CDS and the counterparty for CFD and classifies derivatives as Level 3 hierarchy.

Life Settlements — When the Company becomes the owner of a life insurance policy either by direct purchase or following a default on a premium finance loan, the life insurance premium for such policy is accounted for as an investment in life settlements. Investments in life settlements are accounted for in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these investments using the fair value method. Fair value of the investment in policies is determined using unobservable Level 3 inputs and is calculated by performing a net present value calculation of the face amount of the life policies less premiums for the total portfolio. The unobservable Level 3 inputs use new or updated information that affects our assumptions about remaining life expectancy, credit worthiness of the policy issuer, funds needed to maintain the asset until maturity, and discount rates.

Premium Finance Loans — The Company owns certain premium finance loans, in association with the acquisition of life settlement contracts. The Company records the premium finance loans initially at cost. These loans are collateralized by underlying life insurance policies and the Company is obligated to pay premiums on these policies. Interest income is not accrued on loans where management has determined that the borrowers may be unable to meet contractual obligations. Cash receipts on these loans (if any) are generally applied to the principal balance until the remaining balance is considered collectible, at which time interest income may be recognized when received. Upon default of a loan, the Company has the option to acquire the underlying collateral, if the Company believes it has the required economic value.

Warranty Fee Revenue — The Company promotes and markets extended service plans ("ESP") to consumers through retailers and certain other marketing organizations usually with terms of coverage ranging from one to three years, commencing at the expiration of the manufacturers' warranty, if applicable. The Company generally insures the obligations under ESPs through contractual liability insurance issued by one of its insurance company subsidiaries. Under the terms of service agreements with various retailers, the Company provides for marketing and administrative services related to ESP. These agreements are generally for one-year terms and can be cancelled by either party with thirty days advance notice. The Company recognizes revenue related to promotion, marketing and administration services at the time of the sale of ESP. However, the Company defers a portion of service revenue based upon an estimate of administrative services to be provided in future periods.

2. Significant Accounting Policies – (continued)

Deferred Policy Acquisition Costs — The Company defers commission expenses, premium taxes and assessments as well as certain sales, underwriting and safety costs that vary with and are primarily related to the acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. The Company may realize deferred policy acquisition costs only if the ratio of loss and loss adjustment expense reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%, the Company could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve. The Company considers anticipated investment income in determining whether a premium deficiency relating to short duration contracts exists. The change in net deferred acquisition costs was $56,320, $44,492 and $76,214 for the years ended December 31, 2011, 2010 and 2009, respectively. The amortization for deferred acquisition costs was $161,392, $102,085 and $73,531 in 2011, 2010 and 2009, respectively.

Reinsurance — Reinsurance premiums, losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums earned and losses incurred ceded to other companies have been recorded as a reduction of premium revenue and losses and LAE. Commissions allowed by reinsurers on business ceded have been recorded as ceding commission revenue. Reinsurance recoverables are reported based on the portion of reserves and paid losses and LAE that are ceded to other companies. The Company remains liable for all loss payments, notwithstanding the failure to collect from the reinsurer.

Assessments — Insurance related assessments are accrued in the period in which they have been incurred. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. The Company is subject to a variety of assessments, such as assessments by state guaranty funds and workers' compensation second injury funds. State guaranty funds assessments are used by state insurance regulators to cover losses of policyholders of insolvent insurance companies and for the operating expenses of such agencies. The Company uses estimated assessment rates in determining the appropriate assessment expense and accrual. The Company uses estimates derived from state regulators and/or National Association of Insurance Commissioners ("NAIC") Tax and Assessments Guidelines. Assessment expense for the years ended December 31, 2011, 2010 and 2009 was approximately $8,504, $9,220 and $8,304, respectively.

Property and Equipment — Property and equipment are recorded at cost. Maintenance and repairs are charged to operations as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, as follows:

Building	40 years
Equipment	5 to 7 years
Computer equipment and software	3 to 20 years (primarily three years)
Leasehold improvements	Lesser of lease term or 15 years

The Company accounts for its internal use software under ASC 350 *Intangibles — Goodwill and Other*. Accordingly, the Company capitalizes costs of computer software developed or obtained for internal use that is specifically identifiable, has determinable lives and relates to future use.

Goodwill and Intangible Assets — The Company accounts for goodwill and intangible assets in accordance with ASC 350 *Intangibles — Goodwill and Other.* Upon the completion of an acquisition, the Company completes purchase price accounting in accordance with ASC 805, *Business Combinations*, which requires an acquirer to assign values to the acquired assets and liabilities based on their fair value. In the event that a purchase price paid is in excess of the net assets acquired, any unidentified excess is deemed to be goodwill. Goodwill is not amortized. Additionally as a result of an acquisition, the Company may obtain identifiable intangible assets. Indefinite lived intangible assets are not amortized. Intangible assets with a finite

2. Significant Accounting Policies – (continued)

life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statement of operations. Goodwill and intangible assets with an indefinite useful life were carried at $165,427 and $123,994 as of December 31, 2011 and 2010, respectively. As of December 31, 2011 and 2010, intangible assets with a finite life were valued at $149,189 and $73,832, respectively. For the years ended December 31, 2011, 2010 and 2009, the Company amortized approximately $40,194, $14,305 and $4,023, respectively related to its intangible assets with a finite life.

Income Taxes — The Company joins its domestic subsidiaries in the filing of a consolidated federal income tax return and is party to federal income tax allocation agreements. Under the tax allocation agreements, the Company pays to or receives from its subsidiaries the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return.

Deferred income taxes reflect the impact of ''temporary differences'' between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The deferred tax asset primarily consists of book versus tax differences for premiums earned, loss and loss adjustment expense reserve discounting, policy acquisition costs, earned but unbilled premiums, and unrealized holding gains and losses on marketable equity securities. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income, primarily unrealized investment gains and losses and foreign currency translation gains and losses, are recorded directly to other comprehensive income. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense.

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that we will generate future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. If necessary, the Company establishes a valuation allowance to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

The Company recognizes tax benefits only for tax positions that are more likely than not to be sustained upon examination by taxing authorities. The Company's policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. Tax years 2007 through 2011 are still subject to examination. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

Foreign Currency — The Company assigns functional currencies to its foreign operations, which are generally the currencies of the local operating environment. Foreign currency amounts are remeasured to the functional currency and the resulting foreign exchange gains and losses are reflected in earnings. Functional currency amounts from the Company's foreign operations are then translated into U.S. dollars. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of accumulated other changes in equity from nonowner sources. The foreign currency remeasurement and translation are calculated using current exchange rates for the items reported on the balance sheets and average exchange rates for items recorded in earnings.

2. Significant Accounting Policies – (continued)

Stock Compensation Expense — The Company follows ASC 720 *Compensation — Stock Compensation* and recognizes compensation expense for its share-based payments based on the fair value of the awards. Share-based payments include restricted stock, restricted stock units and stock option grants under the Company's 2005 Equity Incentive Plan and 2010 Omnibus Incentive Plan. ASC 720 requires share-based compensation expense recognized to be based on estimated grant date fair value.

Earnings Per Share — The Company accounts for earnings per share under the two-class method, as described in ASC 260, *Earnings Per Share*. Under the two-class method, earnings for the period are allocated between common stockholders and other stockholders based on their respective rights to receive dividends. Restricted stock awards granted to employees under the Company's 2005 Equity Incentive Plan are considered participating securities as they receive dividends on this stock.

Treasury Stock — The Company accounts for the treasury stock at the repurchase price as a reduction to stockholders' equity.

Concentration and Credit Risk — Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, investments and premium receivable. Investments are diversified through the types of investments, industry sectors and geographic regions. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and investments. At December 31, 2011 and 2010, the outstanding premium receivable balance is generally diversified due to the number of entities composing the Company's customer base. To reduce credit risk, the Company performs ongoing evaluations of its customers' financial condition. The Company also has receivables from its reinsurers. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company periodically evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. It is the policy of management to review all outstanding receivables at period end as well as the bad debt write-offs experienced in the past and establish an allowance for doubtful accounts, if deemed necessary.

Non-controlling Interest — The ownership interest in consolidated subsidiaries of non-controlling interests is reflected as non-controlling interest. The Company's consolidation principles would also consolidate any entity in which the Company would be deemed a primary beneficiary. Non-controlling interest expense represents such non-controlling interests' in the earnings of that entity. All significant transactions and account balances between the Company and its subsidiaries were eliminated during consolidation.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions, which include the reserves for losses and loss adjustment expenses, are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with the recognition and amortization of deferred policy acquisition costs, the determination of fair value of invested assets and related impairments, and the determination of goodwill and intangible impairments require considerable judgment by management. On an on-going basis, management reevaluates its assumptions and the methods of calculating its estimates. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

Reclassifications — Certain accounts in the prior years' consolidated financial statements have been reclassified for comparative purposes to conform to the current year's presentation. This did not have any impact on the net income of the Company.

2. Significant Accounting Policies – (continued)

Recent Accounting Literature

In December 2011, the Financial Accounting Standards Board (''FASB'') issued a new standard which indefinitely defers certain provisions of a previously issued standard, Accounting Standards Update (''ASU'') No. 2011-05 *Comprehensive Income (Topic 220)* that revised the manner in which companies present comprehensive income in financial statements. One of the ASU provisions required companies to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. Accordingly, this requirement is indefinitely deferred and will be further deliberated by the FASB at a future date. The amendment will be effective for fiscal years and interim periods within those years that begin after December 15, 2011.

In June 2011, the FASB issued ASU No. 2011-05 *Comprehensive Income (Topic 220)*. This update requires that all non-owner charges in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-step approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The updated guidance is effective for fiscal years and interim periods beginning on or after December 15, 2011 and is to be applied on a retrospective basis to the beginning of the annual period of adoption. The new standard does not change the items that must be reported in other comprehensive income and will be effective for fiscal years and interim periods within those years that begin after December 15, 2011. The adoption of the new standard will not have a material impact on the Company's results of operations, financial position or liquidity.

In September 2011, the FASB issued ASU No. 2011-08 *Intangibles-Goodwill and Other (Topic 350)*. The updated guidance is intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment, using factors such as changes in management, key personnel, business strategy, technology or customers, to determine whether it should calculate the fair value of a reporting unit. Previous accounting literature required an entity to test goodwill for impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. In the second step, the implied fair value of the reporting unit's goodwill is determined in the same manner as goodwill is measured in a business combination (by measuring the fair value of the reporting unit's assets, liabilities and unrecognized intangible assets and determining the remaining amount ascribed to goodwill) and comparing the amount of the implied goodwill to the carrying amount of the goodwill. Under the updated guidance, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that is more likely than not that its fair value is less than its carrying amount. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 31, 2011. The Company is currently assessing the impact of the adoption of this guidance, but does not anticipate any material impact on its results of operations, financial position or liquidity.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820)*. The ASU generally aligns the principles for fair value measurements and the related disclosure requirements under GAAP and International Financial Reporting Standards (''IFRS''). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. The amendment is effective on a prospective basis for interim and annual reporting periods beginning after December 15, 2011 and early adoption is not permitted. The adoption of the standard will not have a material impact on the Company's consolidated financial statements.

2. Significant Accounting Policies – (continued)

In April 2011, the FASB amended its guidance on accounting for repurchase agreements. The amendments eliminate the criteria to assess whether a transferor must have the ability to repurchase or redeem the financial assets in order to demonstrate effective control over the transferred asset. Under the amended guidance, a transferor maintains effective control over transferred financial assets (and thus accounts for the transfer as a secured borrowing) if there is an agreement that both entitles and obligates the transferor to repurchase the financial assets before maturity and if all of the following conditions previously required are met: (i) financial assets to be repurchased or redeemed are the same or substantially the same as those transferred; (ii) repurchase or redemption date before maturity at a fixed or determinable price; and (iii) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. As a result, more arrangements could be accounted for as secured borrowings rather than sales. The updated guidance is effective on a prospective basis for interim and annual reporting periods beginning on or after December 15, 2011. The Company does not believe the impact of the adoption of this new guidance will have a material impact on the Company's results of operations, financial position or liquidity.

In October 2010, the FASB issued ASU No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* (''ASU 2010-26''). ASU 2010-26 modifies the types of costs that may be deferred, allowing insurance companies to only defer costs directly related to a successful contract acquisition or renewal. These costs include incremental direct costs of successful contracts, the portion of employees' salaries and benefits related to time spent on acquisition activities for successful contracts and other costs incurred in the acquisition of a contract. Additional disclosure of the type of acquisition costs capitalized is also required. ASU 2010-26 is effective on prospective basis for interim and annual reporting periods beginning after December 15, 2011. The Company has completed its assessment using the prospective method and believes the adoption of the new standard will have an impact of additional expenses of approximately $8,000 on an annual basis on the Company's consolidated financial statements.

3. Investments

(a) Available-for-Sale Securities

The amortized cost, estimated fair value and gross unrealized appreciation and depreciation of fixed and equity securities are presented in the tables below:

(Amounts in Thousands) As of December 31, 2011	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 5,091	$ —	$ (777)	$ 4,314
Common stock	28,950	5,228	(2,892)	31,286
U.S. treasury securities	50,474	3,057	(257)	53,274
U.S. government agencies	6,268	522	—	6,790
Municipal bonds	268,240	7,290	(513)	275,017
Corporate bonds:				
Finance	534,810	13,059	(31,918)	515,951
Industrial	131,489	4,392	(2,990)	132,891
Utilities	38,434	1,790	(1,718)	38,506
Commercial mortgage backed securities	150	—	—	150
Residential mortgage backed securities:				
Agency backed	345,112	18,946	(58)	364,000
Non-agency backed	7,886	—	(222)	7,664
	$1,416,904	$54,284	$(41,345)	$1,429,843

(Amounts in Thousands) As of December 31, 2010	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 7,175	$ 107	$ (245)	$ 7,037
Common stock	11,402	1,224	(2,251)	10,375
U.S. treasury securities	82,279	1,634	(1,466)	82,447
U.S. government agencies	6,483	679	—	7,162
Municipal bonds	67,396	438	(1,158)	66,676
Corporate bonds:				
Finance	411,532	9,756	(15,276)	406,012
Industrial	47,828	1,970	(45)	49,753
Utilities	36,375	1,204	(268)	37,311
Commercial mortgage backed securities	1,970	106	—	2,076
Residential mortgage backed securities:				
Agency backed	528,683	18,653	(1,238)	546,098
Non-agency backed	7,779	817	(5)	8,591
Asset-backed securities	2,519	168	—	2,687
	$1,211,421	$36,756	$(21,952)	$1,226,225

Proceeds from the sale of investments in available-for-sale securities during the years ended December 31, 2011, 2010, and 2009 were approximately $2,140,557, $3,639,191, and $421,355, respectively.

3. Investments – (continued)

A summary of the Company's available-for-sale fixed securities as of December 31, 2011 and 2010, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2011	
(Amounts in Thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 10,044	$ 18,661
Due after one through five years	286,007	277,959
Due after five through ten years	501,490	494,290
Due after ten years	228,695	231,519
Mortgage backed securities	356,627	371,814
Total fixed maturities	$1,382,863	$1,394,243

	December 31, 2010	
(Amounts in Thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 5,153	$ 5,241
Due after one through five years	102,536	103,222
Due after five through ten years	451,481	450,164
Due after ten years	92,723	90,734
Mortgage backed securities	540,951	559,452
Total fixed maturities	$1,192,844	$1,208,813

(b) Investment Income

Net investment income for the years ended December 31, 2011, 2010 and 2009 was derived from the following sources:

(Amounts in Thousands)	2011	2010	2009
Fixed maturity securities	$53,595	$43,789	$47,675
Equity securities	981	702	2,084
Cash and short term investments	1,966	4,042	4,173
Interest on note receivable – related party	—	2,612	2,967
	56,542	51,145	56,899
Less: Investment expenses and interest expense on securities sold under agreement to repurchase	(1,027)	(628)	(1,612)
	$55,515	50,517	$55,287

(c) Other Than Temporary Impairment

OTTI charges of our fixed-maturities and equity securities for the years ended December 31, 2011, 2010 and 2009 are presented in the table below:

(Amounts in Thousands)	2011	2010	2009
Equity securities recognized in earnings	$ 937	$10,656	$20,639
Fixed maturity securities recognized in earnings	3,474	10,540	4,139
	$4,411	$21,196	$24,778

3. Investments – (continued)

The tables below summarize the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized loss position as of December 31, 2011 and 2010:

(Amounts in Thousands) December 31, 2011	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$ 4,211	$ (648)	7	$ 4,573	$ (3,021)	17	$ 8,784	$ (3,669)
U.S. treasury securities	7,523	(257)	4	773	—	1	8,296	(257)
Municipal bonds	43,452	(452)	10	4,098	(61)	1	47,550	(513)
Corporate bonds:								
Finance	221,950	(13,250)	81	104,461	(18,668)	17	326,411	(31,918)
Industrial	35,105	(2,125)	11	2,500	(865)	1	37,605	(2,990)
Utilities	21,483	(1,261)	9	5,766	(457)	1	27,249	(1,718)
Commercial mortgage backed securities	150	—	2	—	—	—	150	—
Residential mortgage backed securities:								
Agency backed	31,986	(58)	9	—	—	—	31,986	(58)
Non-agency backed	7,641	(216)	1	22	(6)	1	7,663	(222)
Total temporarily impaired	$373,501	$(18,267)	134	$122,193	$(23,078)	39	$495,694	$(41,345)

(Amounts in Thousands) December 31, 2010	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$ 1,291	$ (208)	1	$ 7,148	$ (2,288)	54	$ 8,439	$ (2,496)
U.S. treasury securities	49,390	(1,466)	6	—	—	—	49,390	(1,466)
Municipal bonds	50,301	(1,147)	14	1,204	(11)	1	51,505	(1,158)
Corporate bonds:								
Finance	79,451	(1,700)	16	160,126	(13,576)	31	239,577	(15,276)
Industrial	6,319	(45)	1	—	—	—	6,319	(45)
Utilities	1,981	(106)	1	11,635	(162)	2	13,616	(268)
Residential mortgage backed securities:								
Agency backed	150,575	(1,238)	3	—	—	—	150,575	(1,238)
Non-agency backed	—	—	—	26	(5)	1	26	(5)
Total temporarily impaired	$339,308	$(5,910)	42	$180,139	$(16,042)	89	$519,447	$(21,952)

There are 173 and 131 securities at December 31, 2011 and 2010, respectively that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company's cost basis.

3. Investments – (continued)

(d) Realized Gains and Losses

The tables below indicate the gross realized gains and losses for the years ended December 31, 2011, 2010 and 2009.

(Amounts in Thousands) Year Ended December 31, 2011	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$7,631	$ (266)	$ 7,365
Equity securities	569	(755)	(186)
Write-down of fixed maturity securities	—	(3,474)	(3,474)
Write-down of equity securities	—	(937)	(937)
	$8,200	$(5,432)	$ 2,768

(Amounts in Thousands) Year Ended December 31, 2010	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$17,860	$ (4,353)	$ 13,507
Equity securities	19,656	(6,047)	13,609
Derivatives	33	—	33
Write-down of fixed maturity securities	—	(10,540)	(10,540)
Write-down of equity securities	—	(10,656)	(10,656)
	$37,549	$(31,596)	$ 5,953

(Amounts in Thousands) Year Ended December 31, 2009	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 6,421	$ (5,536)	$ 885
Equity securities	5,617	(10,734)	(5,117)
Derivatives	—	(4,569)	(4,569)
Write-down of fixed maturity securities	—	(4,429)	(4,429)
Write-down of equity securities	—	(20,349)	(20,349)
	$12,038	$(45,617)	$(33,579)

(e) Unrealized Gains and Losses

The net unrealized gain (loss) on available-for-sale securities were as follows:

(Amounts in Thousands) Year Ended December 31,	2011	2010	2009
Fixed maturity securities	$11,380	$15,969	$ 4,444
Equity securities	1,559	(1,165)	(10,283)
Total net unrealized gain (loss)	12,939	14,804	(5,839)
Deferred income tax benefit (expense)	(4,529)	(5,181)	2,044
Net unrealized gains (loss), net of deferred income tax	8,410	9,623	(3,795)
(Decrease) increase in net unrealized gains, net of deferred income tax	$ (1,213)	$13,418	$ 83,087

(f) Derivatives

The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. The Company records changes in valuation on its derivative positions not designated as a hedge as a component of net realized gains and losses.

3. Investments – (continued)

The Company records changes in valuation on its hedged positions as a component of other comprehensive income. As of December 31, 2011, the Company had two interest rate swap agreements designated as a hedge and were recorded as a liability in the amount of $3,508 and were included as a component of accrued expenses and other liabilities.

The following table presents the notional amounts by remaining maturity of the Company's Interest Rate Swaps as of December 31, 2011:

	Remaining Life of Notional Amount[1]				
(Amounts in Thousands)	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years	Total
Interest rate swaps	$ —	$30,000	$40,000	$ —	$70,000

(1) Notional amount is not representative of either market risk or credit risk and is not recorded in the consolidated balance sheet.

(g) Restricted Cash and Investments

The Company, in order to conduct business in certain states, is required to maintain letters of credit or assets on deposit to support state mandated regulatory requirements and certain third party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets held are primarily in the form of cash or certain high grade securities. The fair values of our restricted assets are as follows:

(Amounts in Thousands) As of December 31,	2011	2010
Restricted cash	$ 23,104	$17,130
Restricted investments	187,227	35,682
Total restricted cash and investments	$210,331	$52,812

(h) Other

Securities sold but not yet purchased, represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value and as of December 31, 2011 and 2010 was $55,830 and $8,483 for corporate bonds, respectively, and $112 and $364 for equity securities, respectively. These transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, may exceed the amount reflected at December 31, 2011. Substantially all securities owned are pledged to the clearing broker to sell or repledge the securities to others subject to certain limitations.

The Company entered into repurchase agreements, which are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities, that it invests or holds in short term or fixed income securities. As of December 31, 2011 there were $191,718 principal amount outstanding at interest rates between 0.4% and 0.45%. Interest expense associated with these repurchase agreements for the year ended December 31, 2011 was $1,028 of which $0 was accrued as of December 31, 2011. The Company has $210,890 of collateral pledged in support of these agreements. As of December 31, 2010 there were $347,617 principal amount outstanding at interest rates between 0.32% and 0.4%. Interest expense associated with these repurchase agreements for the year ended December 31, 2010 was $610 of which $63 was accrued as of December 31, 2010. The Company had $351,211 of collateral pledged in support of these agreements. Interest expense related to repurchase agreements is recorded as a component of investment income.

4. Fair Value of Financial Instruments

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of December 31, 2011 and 2010:

(Amounts in Thousands)	Total	Level 1	Level 2	Level 3
As of December 31, 2011				
Assets:				
U.S. treasury securities	$ 53,274	$ 53,274	$ —	$ —
U.S. government securities	6,790	—	6,790	—
Municipal bonds	275,017	—	275,017	—
Corporate bonds and other bonds:				
Finance	515,951	—	515,951	—
Industrial	132,891	—	132,891	—
Utilities	38,506	—	38,506	—
Commercial mortgage backed securities	150	—	150	—
Residential mortgage backed securities:				
Agency backed	364,000	—	364,000	—
Non-agency backed	7,664	—	7,664	—
Equity securities	35,600	35,600	—	—
Short term investments	128,565	128,565	—	—
Other investments	14,588	—	—	14,588
Life settlement contracts	131,387	—	—	131,387
	$1,704,383	$217,439	$1,340,969	$145,975
Liabilities:				
Equity securities sold but not yet purchased, market	$ 112	$ 112	$ —	$ —
Fixed maturity securities sold but not yet purchased, market	55,830	—	55,830	—
Securities sold under agreements to repurchase, at contract value	191,718	—	191,718	—
Life settlement contract profit commission	7,311	—	—	7,311
Derivatives	3,508	—	—	3,508
	$ 258,479	$ 112	$ 247,548	$ 10,819

4. Fair Value of Financial Instruments – (continued)

(Amounts in Thousands)	Total	Level 1	Level 2	Level 3
As of December 31, 2010				
Assets:				
U.S treasury securities	$ 82,447	$ 82,447	$ —	$ —
U.S. government securities	7,162	—	7,162	—
Municipal bonds	66,676	—	66,676	—
Corporate bonds and other bonds:				
Finance	406,012	—	406,012	—
Industrial	49,753	—	49,753	—
Utilities	37,311	—	37,311	—
Commercial mortgage backed securities	2,076	—	2,076	—
Residential mortgage backed securities:				
Agency backed	546,098	—	546,098	—
Non-agency backed	8,591	—	8,591	—
Asset-backed securities	2,687	—	2,687	—
Equity securities	17,412	17,412	—	—
Short term investments	32,137	32,137	—	—
Other investments	21,514	—	—	21,514
Life settlement contracts	22,155	—	—	22,155
	$1,302,031	$131,996	$1,126,366	$43,669
Liabilities:				
Equity securities sold but not yet purchased, market	$ 364	$ 364	$ —	$ —
Fixed maturity securities sold but not yet purchased, market	8,483	—	8,483	—
Securities sold under agreements to repurchase, at contract value	347,617	—	347,617	—
Life settlement contract profit commission	4,711	—	—	4,711
	$ 361,175	$ 364	$ 356,100	$ 4,711

The Company had no transfers between levels during 2011 and 2010.

4. Fair Value of Financial Instruments – (continued)

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets for the years ended December 31, 2011 and 2010:

(Amounts in Thousands)	Balance as of January 1, 2011	Net income (loss)	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2011
Other investments	$21,514	$ 883	$(1,644)	$ 611	$ (6,776)	$ —	$ 14,588
Life settlement contracts	22,155	80,523	—	39,239	(10,530)	—	131,387
Life settlement contract profit commission	(4,711)	(2,600)	—	—	—	—	(7,311)
Derivatives	—	—	(3,508)	—	—	—	(3,508)
Total	$38,958	$78,806	$(5,152)	$39,850	$(17,306)	$ —	$135,156

(Amounts in Thousands)	Balance as of January 1, 2010	Net income (loss)	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2010
Other investments	$14,034	$ 283	$2,113	$ 5,284	$ (200)	$ —	$21,514
Life settlement contracts	—	16,853	—	5,302	—	—	22,155
Life settlement contract profit commission	—	(4,711)	—	—	—	—	(4,711)
Derivatives	(1,893)	33	—	—	1,860	—	—
Total	$12,141	$12,458	$2,113	$10,586	$1,660	$ —	$38,958

The Company uses the following methods and assumptions in estimating its fair value disclosures for financial instruments:

- *Equity and Fixed Income Investments:* Fair value disclosures for these investments are disclosed elsewhere in Note 2. "Significant Accounting Policies";
- *Premiums Receivable:* The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values due to the short term nature of the asset;
- *Subordinated Debentures and Debt:* The carrying values reported in the accompanying balance sheets for these financial instruments approximate fair value. Fair value was estimated using projected cash flows, discounted at rates currently being offered for similar notes.

The fair value of life settlement contracts is based on information available to the Company at the end of the reporting period. The Company considers the following factors in its fair value estimates: cost at date of purchase, recent purchases and sales of similar investments, financial standing of the issuer, changes in economic conditions affecting the issuer, maintenance cost, premiums, benefits, standard actuarially developed mortality tables and industry life expectancy reports. The fair value of a life insurance policy is estimated using present value calculations based on the data specific to each individual life insurance policy. The following summarizes data utilized in estimating the fair value of the portfolio of life insurance policies for the years ended December 31, 2011 and 2010:

	2011	2010
Average age of insured	77	75
Average life expectancy, months[1]	155	193
Average face amount per policy	$6,703,000	$6,084,000
Fair value discount rate	7.5%	7.3%

(1) Mortality rates: standard life expectancy as adjusted for insured's specific circumstances

4. Fair Value of Financial Instruments – (continued)

These assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The fair value measurements used in estimating the present value calculation are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonable vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value amount. If the life expectancies were increased or decreased by 4 months and the discount factors were increased or decreased by 1% while all other variables are held constant, the carrying value of the investment in life insurance policies would increase or (decrease) by the unaudited amounts summarized below for the years ended December 31, 2011 and 2010:

	Change in life expectancy	
	Plus 4 Months	Minus 4 Months
Investment in life policies:		
December 31, 2011	$(18,778)	$20,785
December 31, 2010	$ (4,163)	$ 4,912

	Change in discount rate	
	Plus 1%	Minus 1%
Investment in life policies:		
December 31, 2011	$(13,802)	$15,804
December 31, 2010	$ (2,996)	$ 2,537

5. Acquisitions

AHL

During 2011 and 2010, AmTrust Holdings Luxembourg S.A.R.L (''AHL'') (formerly called AmTrust Captive Holdings Limited) completed a series of acquisitions described below. AHL is a holding company that purchases Luxembourg captive insurance entities that allows the Company to obtain the benefit of the captives' capital and utilization of their existing and future loss reserves through a series of reinsurance arrangements with a subsidiary of the Company. AHL is included in the Company's Specialty Risk and Extended Warranty segment.

In December 2011, AHL acquired all the issued and outstanding stock of Reaal Reassurantie S.A., a Luxembourg domiciled captive insurance company, from SNS REAAL N.V. and REAAL N.V. The purchase price of Reaal Reassurantie S.A. was approximately $71,900. The Company recorded approximately $78,700 of cash, intangible assets of $15,500 and a deferred tax liability of $22,300. Reaal Reassurantie S.A. subsequently changed its name to AmTrust Re Kappa.

In December 2011, AHL acquired all the issued and outstanding stock of Vandermoortele International Reinsurance Company SA, a Luxembourg domiciled captive insurance company, from NV Vandermoortele, Vandemoortele International Finance SA and NV Safinco. The purchase price of Vandermoortele International Reinsurance Company SA was approximately $66,000. The Company recorded approximately $71,400 of cash, intangible assets of $10,600 and a deferred tax liability of $16,000. Vandermoortele International Reinsurance Company SA subsequently changed its name to AmTrust Re Zeta.

In June 2011, AHL acquired all the issued and outstanding stock of International Crédit Mutuel Reinsurance SA (''ICM Re''), a Luxembourg domiciled captive insurance company, from Assurance du Credit Mutuel IARD SA. The purchase price of ICM Re was approximately $315,000. The Company recorded approximately $347,000 of cash, intangible assets of $55,900 and a deferred tax liability of $87,800. ICM Re subsequently changed its name to AmTrust Re Alpha.

5. Acquisitions – (continued)

In May 2010, AHL acquired all the issued and outstanding stock of Euro International Reinsurance S.A., a Luxembourg domiciled captive insurance company, from TALANX AG. The purchase price of Euro International Reinsurance S.A. was approximately $58,300. The Company recorded approximately $65,700 of cash, intangible assets of $8,600 and a deferred tax liability of $16,000. Euro International Reinsurance S.A. subsequently was merged into AmTrust Re 2007.

The Company has classified the intangible assets as contractual use rights and they will be amortized based on the actual use of the related loss reserves. As a result of these acquisitions in 2011 and 2010, the Company reduced its acquisition costs and other underwriting expenses by approximately $23,000 in 2011.

Cardinal Comp

In September 2008, the Company entered into a managing general agency agreement with Cardinal Comp, LLC (''Cardinal Comp''), a workers' compensation managing general agent for which the Company paid the agency a commission for the placement of insurance policies. The agency operated in eight states and primarily in the state of New York. In September 2011, the Company, through one of its subsidiaries, entered into a renewal rights and asset purchase agreement with Cardinal Comp and Cook Inlet Alternative Risk LLC. The purchase price was approximately $30,388. The existing managing general agency agreement entered into in 2008 was terminated as part of the new agreement and will enable the Company to reduce commissions on written premium generated from the renewal rights agreement. In accordance with FASB ASC 805-10 *Business Combinations*, the Company recorded a purchase price of $30,388, which consisted primarily of goodwill and intangible assets of $5,250 and $24,750, respectively. The intangible assets consist of distribution networks, renewal rights and a trademark and have asset lives of between 2 and 16 years. The goodwill and intangibles are included as a component of the Small Commercial Business segment.

Majestic

The Company, through certain of its subsidiaries and the Insurance Commissioner of the State of California acting solely in the capacity as the statutory conservator (the ''Conservator'') of Majestic Insurance Company (''Majestic''), entered into a Rehabilitation Agreement that set forth a plan for the rehabilitation of Majestic (the ''Rehabilitation Plan'') by which the Company acquired the business of Majestic through a Renewal Rights and Asset Purchase Agreement (the ''Purchase Agreement''), and a Loss Portfolio Transfer and Quota Share Reinsurance Agreement (the ''Reinsurance Agreement''). On July 1, 2011, the Company, through one of its subsidiaries, entered into the Reinsurance Agreement, which was effective June 1, 2011, and assumed all of Majestic's liability for losses and loss adjustment expenses under workers' compensation insurance policies of approximately $331,660 on a gross basis (approximately $183,511 on a net basis), without any aggregate limit, and certain contracts related to Majestic's workers'' compensation business, including leases for Majestic's California office space. In addition, the Company assumed 100% of the unearned premium reserve of approximately $25,997 on all in-force Majestic policies. In connection with this transaction, the Company received approximately $224,532 of cash and investments, which included $26,000 for a reserve deficiency and also included the assignment of Majestic's reinsurance recoverables of approximately $51,715. The Reinsurance Agreement also contains a profit sharing provision whereby the Company pays Majestic up to 3% of net earned premium related to current Majestic policies that are renewed by the Company in the three year period commencing on the closing date should the loss ratio on such policies for the three year period be 65% or less. The insurance premiums, which are included in the Company's Small Commercial Business segment, have been recorded since the acquisition date and were approximately $42,881 for the year ended December 31, 2011.

5. Acquisitions – (continued)

The Company completed its purchase price accounting related to the Reinsurance Agreement. In accordance with ASC 944-805 *Business Combinations*, the Company is required to adjust to fair value Majestic's loss and LAE reserves by taking the acquired loss reserves recorded and discounting them based on expected reserve payout patterns using a current risk-free rate of interest. This risk free interest rate is then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and the Company's best estimate of the fair value of such reserves at acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves. The Company determined the fair value of the loss reserves to be $328,905. Accordingly, the amortization will be recorded as an expense on the Company's income statement until fully amortized.

In consideration for the Company's assumption of (i) Majestic's losses and loss adjustment expenses under its workers' compensation insurance policies pursuant to the Reinsurance Agreement and (ii) Majestic's leases for its California offices, a Company subsidiary, pursuant to the Purchase Agreement, acquired the right to offer, quote and solicit the renewals of in-force workers' compensation policies written by Majestic, certain assets required to conduct such business, including intellectual property and information technology, certain fixed assets, and the right to offer employment to Majestic's California-based employees.

As a result of entering into the Purchase Agreement, the Company, in accordance with FASB ASC 805 *Business Combinations* recorded $3,870 of intangible assets related to distribution networks and trademarks. The distribution networks have a life of 13 years and the trademarks have a life of two years. Additionally, the Company recorded a liability for approximately $390 related to an unfavorable lease assumed in the transaction and a liability for approximately $815 related to the above mentioned profit sharing provision.

As a result, the Company recorded an acquisition gain of $5,850 related to the entire Majestic purchase during the year ended December 31, 2011. The finalized purchase price allocation as of the date of the acquisition is as follows:

(Amounts in Thousands)	
Assets	
Cash and investments	$224,532
Premium receivables	25,997
Reinsurance recoverables	148,149
Other assets	11,124
Intangible assets	6,625
Total assets	$416,427
Liabilities	
Loss and loss expense reserves	$331,660
Funds held under reinsurance treaties	51,715
Unearned premium	25,997
Accrued expenses and other current liabilities	1,205
Total liabilities	$410,577
Acquisition gain	$ 5,850

5. Acquisitions – (continued)

BTIS

In December 2011, the Company acquired the California-based Builders & Tradesmen's Insurance Services, Inc. (''BTIS''), an insurance wholesaler and general agent specializing in insurance policies and bonds for small artisan contractors. The Company's initial purchase price was $5,000, which does not include potential incentives to the sellers based on future profitability of the business. The transaction did not have a material impact on the Company's results of operations or financial condition in 2011.

Warrantech

In August 2010, the Company, through its wholly-owned subsidiary AMT Warranty Corp., acquired 100% of the issued and outstanding capital stock of Warrantech Corporation and its subsidiaries (''Warrantech'') from WT Acquisition Holdings, LLC for approximately $7,500 in cash and an earnout payment to the sellers of a minimum of $2,000 and a maximum and $3,000 based on AMT Warranty Corp.'s EBITDA over the three-year period from January 1, 2011 through December 31, 2013. Prior to the acquisition, the Company had a 27% equity interest (in the form of preferred units) in WT Acquisition Holdings, LLC and a $20,000 senior secured note due January 31, 2012 issued to it by Warrantech. Interest on the note was payable monthly at a rate of 15% per annum and consisted of a cash component at 11% per annum and 4% per annum for the issuance of additional notes in principal amount equal to the interest not paid in cash on such date.

Immediately prior to the consummation of this transaction, WT Acquisition Holdings, LLC redeemed the Company's preferred units that had represented the Company's 27% equity interest in that entity. In addition, immediately following the transaction, AMT Warranty Corp. was recapitalized and the Company contributed its note receivable from Warrantech in the approximate amount of $24,100 to AMT Warranty Corp. in exchange for Series A preferred stock, par value $0.01 per share (the ''Series A Preferred Stock''), of AMT Warranty Corp. valued at $24,100. The Company also received additional shares of Series A Preferred Stock such that the total value of its 100% preferred share ownership in AMT Warranty Corp. is equivalent to $50,700. Lastly, AMT Warranty Corp. issued 20% of its issued and outstanding common stock to the Chairman of Warrantech, which had a fair value of $6,900 as determined using both a market and an income approach. Given its preference position, absent the Company's waiver, the Company will be paid distributions on its Series A Preferred Stock before any common shareholder would be entitled to a distribution on the common stock.

As a result, the ultimate acquisition price of Warrantech was $48,928 and the Company recorded goodwill and intangible assets of approximately $69,739 and $29,600, respectively. Acquisition related costs related to the deal were less then $100. The intangible assets consisted of trademarks, agency relationships and non-compete agreements, which had estimated lives of between 3 and 18 years. The change in the preliminary amount of goodwill recorded during the third quarter of 2010 resulted primarily from the determination of the fair value of Warrantech's deferred tax liabilities and accrued liabilities. The results of operations from Warrantech, which are included in the Company's Specialty Risk and Extended Warranty segment as a component of service and fee income, have been recorded since the acquisition date and were approximately $52,800 and $17,400 for the years ended December 31, 2011 and 2010, respectively.

5. Acquisitions – (continued)

The finalized purchase price allocation as of the date of acquisition is as follows:

(Amounts in Thousands)	
Assets	
Accounts receivable	$ 15,232
Deferred tax asset	7,619
Property and equipment	2,123
Other assets	10,752
Goodwill	69,739
Intangible assets	29,600
Total assets	$135,065
Liabilities	
Premium payable	$ 35,717
Deferred revenue	11,293
Deferred tax liability	9,652
Accrued expenses and other current liabilities	29,475
Total liabilities	$ 86,137
Total purchase price	$ 48,928

Risk Services

During June 2010, the Company completed the acquisition of eight direct and indirect subsidiaries of RS Acquisition Holdings Corp., including Risk Services, LLC and PBOA, Inc. (collectively, ''Risk Services''). The entities acquired include various risk retention and captive management companies, brokering entities and workers' compensation servicing entities. The acquired companies are held in a newly created entity, RS Acquisition Holdco, LLC. The Risk Services entities have offices in Florida, Vermont and the District of Columbia and are broadly licensed.

The Company has a majority ownership interest (80%) in Risk Acquisition Holdco, LLC, for which the Company's total consideration was $11,700. Acquisition costs associated with the acquisition were approximately $200. As part of the purchase agreement, the non-controlling interest has the option under certain circumstances to require the Company to purchase the remaining ownership interest (20%) of Risk Services. In accordance with FASB ASC Topic 480, *Distinguishing Liabilities from Equity*, and FASB ASC Topic 815, *Derivatives and Hedging,* the Company has classified the remaining 20% ownership interest of Risk Services as mezzanine equity on the Consolidated Balance Sheet.

In accordance with FASB ASC 805, *Business Combinations,* the Company's total consideration paid for Risk Services was $11,700, which included cash of $11,100 and a value of $600 that was assigned for the redeemable non-controlling interest as determined using both a market and an income approach. The Company assigned a value of approximately $5,000 to intangible assets and $5,029 to goodwill. The intangible assets consisted of tradenames, customer relationships, renewal rights and non-compete agreements and have finite lives ranging from 4 years to 17 years. The results of operations from Risk Services, which are included in our Small Commercial Business segment as a component of service and fee income, have been included since the acquisition date and were approximately $7,300 and $7,400 for the years ended December 31, 2011 and 2010, respectively.

6. Investment in Life Settlements

A life settlement contract is a contract between the policy owner of a life insurance policy and a third-party investor who obtains the ownership and beneficiary rights of the underlying life insurance policy. During 2010, the Company formed Tiger Capital LLC (''Tiger'') with a subsidiary of ACAC for the purposes of acquiring life settlement contracts. In 2011, the Company formed AMT Capital Alpha, LLC (''AMT Alpha'') with a subsidiary of ACAC and AMT Capital Holdings, S.A. (''AMTCH'') with ACP Re, LTD., an entity controlled by Michael Karfunkel, for the purposes of acquiring additional life settlement contracts. The Company has a fifty percent ownership interest in each of Tiger, AMT Alpha and AMTCH (collectively, the ''LSC entities''). Tiger may also acquire premium finance loans made in connection with the borrowers' purchase of life insurance policies that are secured by the policies, which are in default at the time of purchase. The LSC entities acquire the underlying policies through the borrowers' voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator of the Tiger life settlement contract portfolio, for which it receives an annual fee. Under the terms of an agreement for Tiger, the third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. The Company provides for certain actuarial and finance functions related to the LSC entities. Additionally, in conjunction with the Company's 21.25% ownership percentage of ACAC, the Company ultimately receives 60.6% of the profits and losses of Tiger and AMT Alpha. As such, in accordance with ASC 810-10, *Consolidation,* we have been deemed the primary beneficiary and, therefore, consolidate the LSC entities.

The Company accounts for investments in life settlements in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these policies using the fair value method. The Company determines fair value on a discounted cash flow basis of anticipated death benefits, incorporating current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available.

Total capital contributions of $43,000 and $22,000 were made to the LSC entities during the years ended December 31, 2011 and 2010, respectively, for which the Company contributed their fifty percent ownership share of approximately $21,500 and $11,000 in those same periods. The LSC entities used a majority of the contributed capital to acquire certain life insurance policies of approximately $31,000 and $4,600 for the years ended December 31, 2011 and 2010, respectively. The Company's investments in life settlements and cash value loans were approximately $136,800 and $31,500 as of December 31, 2011 and 2010, respectively and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. The Company recorded other income for the years ended December 31, 2011 and 2010 of approximately $46,900 and $11,900, respectively, related to the life settlement contracts.

In addition to the 237 and 79 policies disclosed in the table below as of December 31, 2011 and 2010, respectively, Tiger owned 36 and 143 premium finance loans as of December 31, 2011 and 2010, respectively, which were secured by life insurance policies and were carried at a value of $5,391 and $9,302 as of December 31, 2011 and 2010, respectively. As of December 31, 2011, the face value amount of the related 237 life insurance policies and 36 premium finance loans were approximately $1,518,183 and $217,950, respectively. All of the premium finance loans are in default and Tiger is enforcing its rights in the collateral. Upon the voluntary surrender of the underlying life insurance policy in satisfaction of the loan or foreclosure, Tiger will become the owner of and beneficiary under the underlying life insurance policy and will have the option to continue to make premium payments on the policies or allow the policies to lapse. If a policyholder

6. Investment in Life Settlements – (continued)

wishes to cure his or her default and repay the loan, Tiger will be repaid the total amount due under the premium finance loans, including all premium payments made by Tiger to maintain the policy in force since its acquisition of the loan.

The following tables describe the Company's investment in life settlements as of December 31, 2011 and 2010:

(Amounts in thousands, except Life Settlement Contracts) Expected Maturity Term in Years	Number of Life Settlement Contracts	Fair Value	Face Value
As of December 31, 2011:			
0 – 1	—	$ —	$ —
1 – 2	—	—	—
2 – 3	1	6,665	10,000
3 – 4	1	2,703	5,000
4 – 5	2	9,630	20,000
Thereafter	233	112,389	1,483,183
Total	237	$131,387	$1,518,183
As of December 31, 2010:			
0 – 1	—	$ —	$ —
1 – 2	—	—	—
2 – 3	—	—	—
3 – 4	—	—	—
4 – 5	—	—	—
Thereafter	79	22,155	495,183
Total	79	$ 22,155	$ 495,183

Premiums to be paid for each of the five succeeding fiscal years to keep the life insurance policies in force as of December 31, 2011, are as follows:

(Amounts in Thousands)	Premiums Due on Life Settlement Contracts	Premiums Due on Premium Finance Loans	Total
2012	$ 20,077	$ 2,367	$ 22,444
2013	23,386	2,671	26,057
2014	24,413	2,738	27,151
2015	25,209	2,957	28,166
2016	33,029	4,241	37,270
Thereafter	439,038	81,907	520,945
	$565,152	$96,881	$662,033

7. Intangible Assets and Goodwill

The composition of the intangible assets is summarized as follows:

(Amounts in Thousands) As of December 31, 2011	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$147,654	$ —	$147,654	Indefinite Life
Renewal rights	14,680	3,150	11,530	7 – 17 years
Covenant not to compete	7,756	4,569	3,187	3 – 9 years
Distribution networks	63,542	14,754	48,788	10 – 20 years
Software	2,305	2,028	277	20 years
Customer relationships	23,263	4,595	18,668	5 – 10 years
Trademarks	5,124	2,105	3,019	2 – 15 years
Trademarks	3,433	—	3,433	Indefinite Life
License	408	27	381	50 years
Licenses	14,340	—	14,340	Indefinite Life
Contractual use rights	98,306	37,405	60,901	Specific use
Other	2,755	317	2,438	4 years
Total	$383,566	$68,950	$314,616	9 years average

(Amounts in Thousands) As of December 31, 2010	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$106,220	$ —	$106,220	Indefinite Life
Renewal rights	7,780	2,373	5,407	7 – 17 years
Covenant not to compete	7,756	2,545	5,211	3 – 9 years
Distribution networks	57,817	10,138	47,679	10 – 20 years
Software	2,304	2,006	298	20 years
Customer relationships	6,395	3,439	2,956	5 – 10 years
Trademarks	3,820	1,176	2,644	2 – 15 years
Trademarks	3,433	—	3,433	Indefinite Life
License	408	16	392	50 years
Licenses	14,340	—	14,340	Indefinite Life
Contractual use rights	16,309	7,063	9,246	2 – 3 years
Total	$226,582	$28,756	$197,826	12 years average

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2011 and 2010 are as follows:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Total
Balance as of January 1, 2010	$42,816	$ 5,020	$ 5,320	$ 53,156
Goodwill additions	4,872	48,342	—	53,214
Foreign currency translation	—	(150)	—	(150)
Balance as of January 1, 2011	$47,688	$53,212	$ 5,320	$106,220
Goodwill additions	9,854	23,288	8,300	41,442
Foreign currency translation	—	(9)	—	(9)
Balance as of December 31, 2011	$57,542	$76,491	$13,620	$147,653

7. Intangible Assets and Goodwill – (continued)

Goodwill added during 2011 resulted primarily from the acquisition of Cardinal Comp and other adjustments for deferred tax liabilities in the Small Commercial Business segment, the finalization of purchase adjustments for Warrantech in the Specialty Risk and Extended Warranty segment and contingent consideration related to a Specialty Program business. Goodwill added during 2010 resulted primarily from the acquisitions of Risk Services and Warrantech.

Goodwill and intangible assets are subject to annual impairment testing. No impairment was recorded during the years ended December 31, 2011, 2010 and 2009. Finite lived intangible assets are amortized under the straight-line method, except for renewal rights, which the Company amortizes using a 125% accelerated method, and contractual use rights, which are amortized based on actual use. Amortization expense for 2011, 2010 and 2009 was $40,194, $14,305 and $4,023, respectively. The estimated aggregate amortization expense for each of the next five years is:

(Amounts in Thousands)	
2012	$32,073
2013	30,588
2014	27,921
2015	7,638
2016	5,741

8. Property and Equipment, Net

(Amounts in Thousands) As of December 31,	2011	2010
Land	$ 7,593	$ 2,604
Building	21,516	14,658
Software	26,428	18,002
Computer equipment	15,471	10,114
Other equipment	17,239	3,829
Leasehold improvements	1,335	1,339
	89,582	50,546
Less: Accumulated depreciation and amortization	(28,029)	(19,657)
	$ 61,553	$ 30,889

Depreciation expense was $9,806, $6,039 and $4,768 for the years ended December 31, 2011, 2010 and 2009.

9. Liability for Unpaid Loss and LAE

The following table provides a reconciliation of the beginning and ending balances for unpaid losses and LAE, reported in the accompanying consolidated balance sheets as of December 31, 2011 and 2010:

(Amounts in Thousands)	2011	2010	2009
Unpaid losses and LAE, gross of related reinsurance recoverables at beginning of year	$1,263,537	$1,091,944	$1,014,059
Less: Reinsurance recoverables at beginning of year	670,877	561,874	504,404
Net balance, beginning of year	592,660	530,070	509,655
Incurred related to:			
Current year	665,812	463,535	332,598
Prior year	12,521	7,946	(4,827)
Total incurred losses during the year	678,333	471,481	327,771
Paid losses and LAE related to:			
Current year	(390,267)	(222,593)	(203,210)
Prior year	(179,721)	(187,012)	(109,872)
Total payments for losses and LAE	(569,988)	(409,605)	(313,082)
Commuted loss reserves	—	1,350	4,612
Net balance, December 31	701,005	593,296	528,956
Acquired outstanding loss and loss adjustment reserve	209,651	—	—
Effect of foreign exchange rates	(3,873)	(636)	1,114
Plus reinsurance recoverables at end of year	972,392	670,877	561,874
Unpaid losses and LAE, gross of related reinsurance recoverables at end of year	$1,879,175	$1,263,537	$1,091,944

In 2011, the Company's liabilities for unpaid losses and LAE attributable to prior years increased by $12,521 primarily as result of unfavorable loss development, in its Specialty Program segment due to higher actuarial estimates based on actual losses. In 2010, the Company's liabilities for unpaid losses and LAE attributable to prior years increased by $7,946 primarily as result of unfavorable loss development, in its Specialty Program segment due to higher actuarial estimates based on actual losses. In 2009, the Company's liabilities for unpaid losses and LAE attributable to prior years decreased by $4,827 primarily as result of favorable development in both the Small Commercial Business segment and Specialty Risk and Extended Warranty segment partially offset by unfavorable development in our Specialty Program Business segment as well as the Company's involuntary participation in NCCI pools. In setting its reserves, the Company utilizes a combination of Company loss development factors and industry-wide loss development factors. In the event that the Company's losses develop more favorably than the industry, as a whole, the Company's liabilities for unpaid losses and LAE should decrease. Management believes that its use of both its historical experience and industry-wide loss development factors provide a reasonable basis for estimating future losses. As the Company has written more business and developed more credible data, the Company has assigned more weight to its historical experience than to industry-wide results. In either case, future events beyond the control of management, such as changes in law, judicial interpretations of law, and inflation may favorably or unfavorably impact the ultimate settlement of the Company's loss and LAE.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated changes in claim costs due to inflation are considered in estimating the ultimate claim costs, the increase in average severity of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and are modified if necessary.

10. Accrued Expenses and Other Liabilities

(Amounts in Thousands) As of December 31,	2011	2010
Premium taxes, assessments and surcharges payable	$ 67,138	$ 63,557
Deferred warranty revenue	51,011	32,410
Commissions payable	43,923	23,114
Premiums collected in advance	18,279	19,343
Claims payable	18,005	14,655
Deposits from customers	17,396	—
Due to sellers	16,309	9,119
Other accrued expenses	15,339	16,968
Accounts payable	8,464	7,338
Dividends payable	6,048	4,768
Derivative liability	3,508	—
Accrued interest	2,223	1,736
	$267,643	$193,008

11. Debt

The Company's borrowings consisted of the following at December 31, 2011 and 2010:

(Amounts in Thousands) As of December 31,	2011	2010
Revolving credit facility	$ —	$ —
Subordinated debentures	123,714	123,714
Convertible senior notes	138,506	—
Secured loan agreement	10,018	—
Promissory note	7,362	14,400
Term loan	—	6,667
	$279,600	$144,781

Aggregate scheduled maturities of the Company's borrowings at December 31, 2011 are:

(Amounts in Thousands)	
2012	$ 8,339[(1)]
2013	1,021
2014	1,068
2015	1,116
2016	1,167
Thereafter	266,889[(2)]

(1) Amount reflected in balance sheet for promissory note is net of unamortized original issue discount of $138.

(2) Amount reflected in balance sheet for convertible senior notes is net of unamortized original issue discount of $36,494.

11. Debt – (continued)

Revolving Credit Agreement

On January 28, 2011, the Company entered into a three-year, $150,000 credit agreement (the ''Credit Agreement''), among JPMorgan Chase Bank, N.A., as Administrative Agent, The Bank of Nova Scotia, as Syndication Agent, SunTrust Bank, as Documentation Agent, and the various lending institutions party thereto. The credit facility is a revolving credit facility with a letter of credit sublimit of $50,000 and an expansion feature not to exceed $50,000. Proceeds of borrowings under the Credit Agreement may be used for working capital, acquisitions and general corporate purposes. In connection with entering into the Credit Agreement, the Company terminated the then existing Term Loan and Uncommitted Line of Credit Letter Agreement with JPMorgan Chase Bank, N.A (''Term Loan''). The Company did not record a gain or loss on the extinguishment of its previous term loan.

ABR borrowings (which are borrowings bearing interest at a rate determined by reference to the Alternate Base Rate) under the Credit Agreement will bear interest at (x) the greatest of (a) the Administrative Agent's prime rate, (b) the federal funds effective rate plus 0.5 percent or (c) the adjusted LIBO rate for a one month interest period on such day plus 1 percent, plus (y) a margin that is adjusted on the basis of the Company's consolidated leverage ratio. Eurodollar borrowings under the credit agreement will bear interest at the adjusted LIBO rate for the interest period in effect plus a margin that is adjusted on the basis of the Company's consolidated leverage ratio.

The Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. There are also financial covenants that require the Company to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. The Company was in compliance with all covenants as of December 31, 2011.

As of December 31, 2011, the Company had no outstanding borrowings under this Credit Agreement. The Company had outstanding letters of credit in place under this Credit Agreement at December 31, 2011 for $49,771, which reduced the availability on the line of credit to $229 as of December 31, 2011 and the availability under the facility to $100,229 as of December 31, 2011. The Company did not record a gain or loss on the extinguishment of its previous term loan.

The Company recorded approximately $1,324 of deferred financing costs related to the Credit Agreement. Fees payable by the Company under the Credit Agreement include a letter of credit participation fee (which is the margin applicable to Eurodollar borrowings and was 2.25% at December 31, 2011), a letter of credit fronting fee with respect to each letter of credit (.125%) and a commitment fee on the available commitments of the lenders (a range of .35% to .45% based on the Company's consolidated leverage ratio and was 0.40% at December 31, 2011).

The interest rate on the credit facility as of December 31, 2011 was 2.50%. The Company recorded interest expense of approximately $2,697 year ended December 31, 2011, under the Credit Agreement. The Company recorded interest expense of approximately $72 and $752 for the years ended December 31, 2011 and 2010, respectively, related to the terminated term loan.

Junior Subordinated Debt

The Company has established four special purpose trusts for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in junior subordinated debentures issued by the Company. In accordance with FASB ASC 810-10-25, the Company does not consolidate such special purpose trusts, as the Company is not considered to be the primary beneficiary. The equity investment, totaling $3,714 as of

11. Debt – (continued)

December 31, 2011 on the Company's consolidated balance sheet, represents the Company's ownership of common securities issued by the trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on the Company's common stock under certain circumstances, including default of payment. The Company incurred $2,605 of placement fees in connection with these issuances which is being amortized over thirty years. The Company recorded $9,871, $10,209 and $10,209 of interest expense for the years ended December 31, 2011, 2010 and 2009, respectively, related to these trust preferred securities.

The table below summarizes the Company's trust preferred securities as of December 31, 2011:

(Amounts in Thousands) Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate of Notes
AmTrust Capital Financing Trust I	$ 25,000	$ 774	$ 25,774	3/17/2035	8.275%(1)
AmTrust Capital Financing Trust II	25,000	774	25,774	6/15/2035	7.710(1)
AmTrust Capital Financing Trust III	30,000	928	30,928	9/15/2036	3.647(2)
AmTrust Capital Financing Trust IV	40,000	1,238	41,238	3/15/2037	7.930(3)
Total trust preferred securities	$120,000	$3,714	$123,714		

(1) The interest rate will change to three-month LIBOR plus 3.40% after the tenth anniversary in 2015.

(2) The interest rate was LIBOR plus 3.30% as of December 31, 2011.

(3) The interest rate will change to LIBOR plus 3.00% after the fifth anniversary in 2012.

The Company entered into two interest rate swap agreements related to these junior subordinated debentures, which effectively convert the interest rate on the trust preferred securities from a variable rate to a fixed rate. Each agreement is for a period of five years and commenced on September 15, 2011 for tranche III and will commence for tranche IV on its fifth anniversary in 2012.

Convertible Senior Notes

In December 2011, the Company issued $175,000 aggregate principal amount of the Company's 5.5% convertible senior notes due 2021 (the ''Notes'') to certain initial purchasers in a private placement. The Notes will bear interest at a rate equal to 5.50% per year, payable semiannually in arrears on June 15th and December 15th of each year, beginning on June 15, 2012.

The Notes will mature on December 15, 2021 (the ''Maturity Date''), unless earlier purchased by the Company or converted into shares of the Company's common stock, par value $0.01 per share (the ''Common Stock''). Prior to September 15, 2021, the Notes will be convertible only upon satisfaction of certain conditions, and thereafter, at any time prior to the close of business on the second scheduled trading day immediately preceding the Maturity Date. The conversion rate will initially equal 31.4218 shares of Common Stock per $1,000 principal amount of Notes, which corresponds to an initial conversion price of approximately $31.83 per share of Common Stock, representing a conversion premium of 25.0% over $25.46 per share, which was the last reported sale price of the Common Stock on the NASDAQ on December 15, 2011. The conversion rate will be subject to adjustment upon the occurrence of certain events as set forth in the indenture governing the notes. Upon conversion of the Notes, the Company will, at its election, pay or deliver, as the case may be, cash, shares of Common Stock, or a combination of cash and shares of Common Stock.

11. Debt – (continued)

Upon the occurrence of a fundamental change (as defined in the indenture governing the notes) involving the Company, holders of the Notes will have the right to require the Company to repurchase their Notes for cash, in whole or in part, at 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date.

The Company separately allocated the proceeds for the issuance of the Notes to a liability component and an equity compenent, which is the embedded conversion option. The equity component was reported as an adjustment to paid-in-capital, net of tax, and is reflected as an original issue discount (''OID''). The OID of $36,593 and deferred origination costs relating to the liability component of $4,152 will be amortized into interest expense over the term of the loan of the Notes. After considering the contractual interest payments and amortization of the original discount, the Notes effective interest rate was 8.57%. Transaction costs of $1,098 associated with the equity component were netted in paid-in-capital. Interest expense, including amortization of deferred origination costs, recognized on the Notes was $524 for the year ended December 31, 2011.

The following table shows the amounts recorded for the Notes as of December 31, 2011:

(Amounts in Thousands)	
Liability component	
Outstanding principal	$175,000
Unamortized OID	(36,494)
Liability component	138,506
Equity component, net of tax	$ 23,785

Secured Loan Agreement

During February 2011, the Company entered into a seven-year secured loan agreement with Bank of America Leasing & Capital, LLC in the aggregate amount of $10,800 to finance the purchase of an aircraft. The loan bears interest at a fixed rate of 4.45%, requires monthly installment payments of approximately $117 commencing on March 25, 2011 and ending on February 25, 2018, and a balloon payment of $3,240 at the maturity date. The Company recorded approximately $70 of deferred financing costs related to this agreement. The Company recorded interest expense of approximately $402 for the year ended December 31, 2011, respectively, related to this agreement. The loan is secured by an aircraft that a Company subsidiary acquired in February 2011.

The agreement contains certain covenants that are similar to the Company's revolving credit facility. Additionally, subsequent to February 25, 2012, but prior to payment in full, if the outstanding balance of this loan exceeds 90% of the fair value of the aircraft, the Company is required to pay the lender the entire amount necessary to reduce the outstanding principal balance to be equal to or less than 90% of the fair value of the aircraft. The agreement allows the Company, under certain conditions, to repay the entire outstanding principal balance of this loan without penalty.

11. Debt – (continued)

Promissory Note

In connection with the stock and asset purchase agreement with a subsidiary of Unitrin, Inc. (now called Kemper Corporation), the Company, on June 1, 2008, issued a promissory note to Unitrin, Inc. in the amount of $30,000. The note is non-interest bearing and requires four annual principal payments of $7,500. The first three annual principal payments were paid between 2009 and 2011, and the remaining principal payment is due on June 1, 2012. Upon entering into the promissory note, the Company calculated imputed interest of $3,155 based on interest rates available to the Company, which was 4.5%. Accordingly, the note's carrying balance was adjusted to $26,845 at the acquisition. The note is required to be paid in full, immediately, under certain circumstances including a default of payment or change of control of the Company. The Company included $462 and $771 of amortized discount on the note in its results of operations for the years ended December 31, 2011 and 2010, respectively. The note's carrying value was $7,362 and $14,400 as of December 31, 2011 and 2010, respectively.

Comerica Letter of Credit Facility

The Company, through one of its subsidiaries, entered into a secured letter of credit facility with Comerica Bank during the three months ended September 30, 2011. The credit limit is for $75,000 and was utilized for $49,801 as of December 31, 2011. The Company is required to pay a letter of credit participation fee for each letter of credit in the amount of 0.40%.

Other Letters of Credit

The Company, through certain subsidiaries, has additional existing stand-by letters of credit as of December 31, 2011 in the amount of $1,271.

12. Reinsurance

The Company utilizes reinsurance agreements to reduce its exposure to large claims and catastrophic loss occurrences and to increase its capacity to write profitable business. These agreements provide for recovery from reinsurers of a portion of losses and LAE under certain circumstances without relieving the insurer of its obligation to the policyholder. Losses and LAE incurred and premiums earned are reflected after deduction for reinsurance. In the event reinsurers are unable to meet their obligations under reinsurance agreements, the Company would not be able to realize the full value of the reinsurance recoverable balances. The Company periodically evaluates the financial condition of its reinsurers in order to minimize its exposure to significant losses from reinsurer insolvencies. Reinsurance does not discharge or diminish the primary liability of the Company; however, it does permit recovery of losses on such risks from the reinsurers.

The Company has coverage for its workers' compensation line of business under excess of loss reinsurance agreements. As the scale of the Company's workers' compensation business has increased, the Company has also increased the amount of risk retained. The agreements cover, per occurrence, losses in excess of $500 through December 31, 2004, $600 effective January 1, 2005, $1,000 effective July 1, 2006 through July 1, 2009, $1,000 plus 55% of $9,000 in excess of $1,000 effective July 1, 2009 through January 1, 2010, and $10,000 effective January 1, 2010 up to a maximum $130,000 ($50,000 prior to December 1, 2003) in losses. For losses occurring on or after January 1, 2010, the Company has purchased a "third and fourth event cover" that covers losses between $5,000 and $10,000 per occurrence, after a deductible equal to the first $10,000 per annum on such losses. For losses occurring on or after January 1, 2011, we replaced this "third and fourth event cover" with a "second and third event cover" that applies after an aggregate deductible equal to the first $5,000 per annum on such losses. Effective August 19, 2011, we purchased a new layer of coverage providing $100,000 in excess of $130,000 per occurrence, providing us with total protection of $220,000 for losses in excess of $10,000. The Company's reinsurance for worker's compensation losses caused by acts of terrorism is more limited than its reinsurance for other types of workers' compensation losses and, through December 31, 2011, provided coverage, per contract year, of $220,000 in the aggregate in excess of an aggregate retention of $10,000, but excludes acts of nuclear, biological or chemical terrorism (which are covered by the Terrorism Risk Insurance Act, as amended).

12. Reinsurance – (continued)

The Company has coverage for its U.S. casualty lines of business under an excess of loss reinsurance agreement. The agreement covers losses in excess of $2,000 per occurrence (in certain cases the retention can rise to $2,500) up to a maximum $30,000. The Company purchases quota share reinsurance for its non-program umbrella business, whereby we cede 70% of the first $5,000 of loss per policy and 100% of the next $5,000 loss per policy. In addition, we also purchase various pro-rata and excess reinsurance relating to specific insurance programs and/or specialty lines of business, including casualty, public entity, and professional errors and omissions insurance.

The Company has coverage for its U.S. property lines of business under an excess of loss reinsurance agreement. The agreement covers losses in excess of $2,000 per location up to a maximum $20,000, subject to per occurrence and annual limits that vary by layer. In addition the Company has a property catastrophe excess of loss agreement, which covers losses in excess of $5,000 per occurrence up to a maximum $65,000, subject to annual limits that vary by layer.

The Company has coverage for its U.K. property lines of business under an excess of loss reinsurance agreement. The agreement covers losses in excess of £500 per risk up to a maximum £2,000 per risk. In addition, the Company has a property catastrophe excess of loss agreement, which covers losses in excess of £5,000 per occurrence up to a maximum £45,000. The Company also has excess of loss reinsurance coverage for international general liability and non-medical professional business underwritten by our English and Irish insurers. The agreements cover losses in excess of £1,000 per occurrence up to a maximum of £10,000 per occurrence, subject to annual aggregate limits that vary by layer. Through December 31, 2010, we had excess of loss reinsurance under the same terms for our European medical liability business. In 2010, we purchased an 80% quota share reinsurance agreement from National Indemnity Company for our European medical liability business. This contract was effective for claims made through March 31, 2011. Effective April 1, 2011, we replaced this quota share reinsurance agreement with a 40% cession to Maiden Insurance, as more fully described below in Note 13 ''Related Party Transactions.'' In addition, we purchase various pro-rata and excess reinsurance relating to specific foreign insurance programs and/or specialty lines of business.

TIC acts as servicing carrier on behalf of Workers' Compensation Assigned Risk Plans in eight states. TIC issues and services certain workers compensation policies issued to assigned risk insureds. Those policies issued are subject to a 100% quota-share reinsurance agreement offered by the National Workers Compensation Reinsurance Pool or a state-based equivalent, which is administered by the National Council on Compensation Insurance, Inc. TIC, wrote approximately $46,000, $37,000 and $35,400 of premium in 2011, 2010 and 2009, respectively, as a servicing carrier.

As part of the agreement to purchase WIC from Household Insurance Group Holding Company (''Household''), the Company agreed to write certain business on behalf of Household for a three-year period through June 2009. The premium written under this arrangement is 100% reinsured by HSBC Insurance Company of Delaware, a subsidiary of Household. The reinsurance recoverable associated with this business is guaranteed by Household. This business is now in run-off. WIC wrote approximately $7,300, $8,800 and $17,100 of premium in 2011, 2010 and 2009, respectively, subject to this reinsurance treaty.

As part of its acquisition of AIIC, the Company acquired reinsurance recoverable as of the date of closing. The most significant reinsurance recoverable is from American Home Assurance Company (''American Home''). AIIC's reinsurance relationship with American Home incepted January 1, 1998 on a loss occurring basis. From January 1, 1998 through March 31, 1999 the American Home reinsurance covered losses in excess of $250 per occurrence up to statutory coverage limits. Effective April 1, 1999, American Home provided coverage in the amount of $150 in excess of $100. This additional coverage terminated on December 31, 2001 on a run-off basis. Therefore, for losses occurring in 2002 that attached to a 2001 policy, the retention was $100 per occurrence. Effective January 1, 2002 American Home increased its attachment was $250 per occurrence. The XOL treaty that had an attachment of $250 was terminated on a run-off basis

12. Reinsurance – (continued)

on December 31, 2002. Therefore, losses occurring in 2003 that attached to a 2002 policy were ceded to American Home at an attachment point of $250 per occurrence. As of December 31, 2011, the Company had $66,370 of reinsurance recoverables with American Home.

During the third quarter of 2007, the Company entered into a master agreement with Maiden, as amended, by which its Bermuda subsidiary, AII, and Maiden Insurance entered into a quota share reinsurance agreement (the ''Maiden Quota Share''). For a description of this agreement see Note 13. ''Related Party Transactions.''

The effect of reinsurance with unrelated companies on premiums and losses for 2011, 2010 and 2009 are as follows:

	Year Ended December 31,					
	2011		2010		2009	
(Amounts in Thousands)	Written	Earned	Written	Earned	Written	Earned
Premiums:						
Direct	$1,843,185	$1,553,878	$1,375,993	$1,220,164	$1,117,090	$1,038,470
Assumed	307,287	265,258	184,829	160,285	81,856	49,626
Ceded	(873,875)	(782,275)	(733,596)	(634,790)	(555,520)	(514,214)
	$1,276,597	$1,036,861	$ 827,226	$ 745,659	$ 643,426	$ 573,882

	As of December 31,					
	2011		2010		2009	
(Amounts in Thousands)	Assumed	Ceded	Assumed	Ceded	Assumed	Ceded
Loss and LAE reserves	$547,127	$(972,392)	$129,066	$(670,877)	$71,859	$(561,963)
Unearned premiums	124,207	(584,871)	77,548	(484,960)	53,003	(410,553)
Loss and LAE expense incurred	222,859	(575,794)	105,501	(441,106)	24,511	(374,192)

The Company continuously updates the reserves on these lines of business based on information available from the ceding insurers. During 2011, the Company had no commutations related to workers' compensation that were included in ceded reinsurance treaties. During 2010, the Company commuted certain loss reserves of $1,350 related to workers' compensation that were included in ceded reinsurance treaties. This commutation had no material effect on net earnings in either year.

13. Related Party Transactions

Maiden

The Company has various reinsurance and service agreements with Maiden Holdings, Ltd. (''Maiden''). Maiden is a publicly-held Bermuda insurance holding company (Nasdaq: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, the principal shareholders, and, respectively, the chairman of the board of directors, a director, and the chief executive officer and director of the Company. As of December 31, 2011, Michael Karfunkel owns or controls approximately 13.9% of the issued and outstanding capital stock of Maiden, George Karfunkel owns or controls approximately 9.4% of the issued and outstanding capital stock of Maiden and Mr. Zyskind owns or controls approximately 5.1% of the issued and outstanding stock of Maiden. Mr. Zyskind serves as the non-executive chairman of the board of Maiden's board of directors. Maiden Insurance Company, Ltd (''Maiden Insurance''), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer. The following section describes the agreements in place between the Company and its subsidiaries and Maiden and its subsidiaries.

13. Related Party Transactions – (continued)

Quota Share Agreement

In 2007, the Company and Maiden entered into a master agreement, as amended, by which the parties caused the Company's Bermuda subsidiary, AmTrust International Insurance, Ltd. (''AII'') and Maiden Insurance to enter into a quota share reinsurance agreement (the ''Maiden Quota Share''), as amended, by which AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by the Company's U.S., Irish and U.K. insurance companies (the ''AmTrust Ceding Insurers''), net of the cost of unaffiliated inuring reinsurance (and in the case of the Company's U.K. insurance subsidiary, AmTrust Europe Ltd., net of commissions) and 40% of losses, excluding certain specialty risk programs that the Company commenced writing after the effective date and risks, other than workers' compensation risks and certain business written by the Company's Irish subsidiary, AmTrust International Underwriters Limited (''AIU''), for which the AmTrust Ceding Insurers' net retention exceeds $5,000 (''Covered Business'').

The Maiden Quota Share, which had an initial term of three years, was renewed through June 30, 2014 and will automatically renew for successive three-year terms unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on thirty days' notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Insurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers.

Effective April 1, 2011, the Maiden Quota Share, as amended, further provides that AII receives a ceding commission of 30% of ceded written premiums with respect to all Covered Business, except retail commercial package business, for which the ceding commission remains 34.375%. Commencing January 1, 2012, the ceding commission, excluding the retail package business ceding commission (which remains at 34.375%), will be adjusted to (a) 30% of ceded premium, if the Specialty Risk and Extended Warranty subject premium, excluding ceded premium related to our medical liability business discussed below, is greater than or equal to 42% of the total subject premium, (b) 30.5% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 42% but greater than or equal to 38%, or (c) 31% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 38% of the total subject premium. Prior to April 1, 2011, AII received a ceding commission of 31% of ceded premiums with respect to all Covered Business, except retail commercial package business, for which the ceding commission was 34.375%.

Effective April 1, 2011, the Company, through its subsidiaries AEL and AIU, entered into a reinsurance agreement with Maiden Insurance by which the Company cedes to Maiden Insurance 40% of its European medical liability business, including business in force at April 1, 2011. The quota share has an initial term of one year and can be terminated at April 1, 2012 or any April 1 thereafter by either party on four months' notice. Maiden Insurance pays the Company a 5% ceding commission, and the Company will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%.

13. Related Party Transactions – (continued)

The following is the effect on the Company's results of operations for the years ended December 31, 2011, 2010 and 2009 related to the Maiden Quota Share agreement:

(Amounts in Thousands)	2011	2010	2009
Results of operations:			
Premium written – ceded[1]	$(703,175)	$(463,042)	$(379,744)
Change in unearned premium – ceded	143,553	21,771	21,747
Earned premium – ceded	$(559,622)	$(441,271)	$(357,997)
Ceding commission on premium written	$ 182,316	$ 144,598	$ 118,991
Ceding commission – deferred	(28,363)	(6,487)	(6,140)
Ceding commission – earned	$ 153,953	$ 138,111	$ 112,851
Incurred loss and loss adjustment expense – ceded	$ 401,822	$ 295,469	$ 259,780
Interest expense on collateral loan	1,925	982	2,958

Other Reinsurance Agreements

Effective September 1, 2010, the Company, through its subsidiary, Security National Insurance Company (''SNIC''), entered into a reinsurance agreement with Maiden Reinsurance Company and an unrelated third party. Under the agreement, which had an initial term of one year and has been extended to August 31, 2012, SNIC cedes 80% of the gross liabilities produced under the Southern General Agency program to Maiden Reinsurance Company and 20% of the gross liabilities produced to the unrelated third party. SNIC receives a five percent commission on ceded written premiums. The Company ceded written premium of $857 for the year ended December 31, 2011 related to this agreement for which the Company earned ceding commission of $192 for the year ended December 31, 2011. The Company did not enter into any material transactions related to this agreement during the year ended December 31, 2010.

Between January 1, 2009 and January 1, 2010, Maiden was a 45% participating reinsurer in the first layer of the Company's workers' compensation excess of loss program, which provided coverage in the amount of $9,000 per occurrence in excess of $1,000, subject to an annual aggregate deductible of $1,250. From January 1, 2009 through June 30, 2009, Maiden was one of two participating reinsurers in the layer and participated on the same market terms and conditions as the other participant. Effective July 1, 2009, the other participant's participation in the layer was terminated, but Maiden continued to assume 45% of the layer on the existing terms and conditions through the end of the term on January 1, 2010.

As of January 1, 2009, Maiden Insurance had a participation in a $4,000 in excess of $1,000 specialty transportation program written by the Company. For calendar year 2009, Maiden Insurance's participation was 30%. This program provided primarily, commercial auto coverage and, to a lesser extent, general liability coverage to private non-emergency para-transit and school bus service operators. The participations were sourced through a reinsurance intermediary via open market placement in which competitive bids were solicited by an independent broker. Several other broker market reinsurers hold the other 70% participation for 2009. The agreement terminated January 1, 2010.

Note Payable to Maiden — Collateral for Proportionate Share of Reinsurance Obligation

In conjunction with the Maiden Quota Share, as described above, AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby Maiden Insurance loaned to AII the amount equal to its quota share of the obligations of the AmTrust Ceding Insurers that AII was then obligated to secure. The loan agreement provides for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Advances under the loan are secured by a promissory note and totaled $167,975 as of December 31, 2011 and 2010. The Company recorded $1,925 and $982 of interest expense during the years ended December 31, 2011 and 2010, respectively. Effective December 1, 2008, AII and Maiden Insurance

13. Related Party Transactions – (continued)

entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Insurance is required to provide AII the assets required to secure Maiden's proportionate share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral as of December 31, 2011 was approximately $465,000. Maiden retains ownership of the collateral in the trust account.

Fronting Arrangement with Maiden Specialty Insurance Company

Effective September 1, 2010, we, through our wholly-owned subsidiary, TIC, entered into a quota share reinsurance agreement with Maiden Specialty Insurance Company (''Maiden Specialty'') by which TIC assumes a portion (generally 90%) of premiums and losses with respect to certain surplus lines programs written by Maiden Specialty on our behalf (the ''Surplus Lines Facility''). The Surplus Lines Facility enables us to write business on a surplus lines basis throughout the United States in states in which we are unauthorized to write such business through our own insurance subsidiaries. During 2011, we utilized the Surplus Lines Facility for two programs for which Maiden Specialty receives a five percent ceding commission on all premiums ceded by Maiden Specialty to TIC. The Surplus Lines Facility shall remain continuously in force until terminated. We are actively pursuing surplus lines authority for two of our insurance company subsidiaries, which would remove the need for the Surplus Lines Facility. As a result of this agreement, we assumed approximately $18,000 of written premium for which we earned approximately $10,400 and incurred losses of approximately $6,500 for the year ended December 31, 2011. The Company did not enter into any material transactions related to this agreement during the year ended December 31, 2010.

Reinsurance Brokerage Agreement

Effective July 1, 2007, AmTrust, through a subsidiary, entered into a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, AmTrust provides brokerage services relating to the Maiden Quota Share for a fee equal to 1.25% of reinsured premium. The brokerage fee is payable in consideration of AII Reinsurance Broker Ltd.'s brokerage services. The Company recorded $8,082, $5,841 and $5,135 of brokerage commission (recorded as a component of Service and fee income) during the years ended December 31, 2011, 2010 and 2009, respectively.

Asset Management Agreement

Effective July 1, 2007, AmTrust, through a subsidiary, entered into an asset management agreement with Maiden, pursuant to which it provides investment management services to Maiden and its affiliates. The Company currently manages approximately $2,200,000 of assets as of December 31, 2011 related to this agreement. Effective April 1, 2008, the investment management services fee was 0.20% per annum for periods in which average invested assets are $1,000,000 or less and 0.15% per annum for periods in which the average invested assets exceed $1,000,000. As a result of this agreement, the Company earned approximately $3,046, $2,693 and $2,459 of investment management fees (recorded as a component of service and fee income) for the years ended December 31, 2011, 2010 and 2009, respectively.

Services Agreement

AmTrust, through its subsidiaries, entered into services agreements in 2008, pursuant to which it provides certain marketing and back office services to Maiden. Pursuant to the services agreements, AmTrust earns a fee equal to the amount required to reimburse AmTrust for its costs plus 8%. As a result of this agreement, the Company recorded fee income of approximately $0, $38 and $432 for the years ended December 31, 2011, 2010 and 2009, respectively.

Senior Notes

In June 2011, the Company, through a subsidiary, participated as a purchaser in a registered public offering by Maiden Holdings North America, Ltd., a subsidiary of Maiden, for $12,500 of an aggregate $107,500 principal amount of 8.25% Senior Notes due 2041 (the ''Notes'') that are fully and unconditionally

13. Related Party Transactions – (continued)

guaranteed by Maiden. The Notes are redeemable for cash, in whole or in part, on or after June 15, 2016, at 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but not including, the redemption date. Maiden Holdings North America, Ltd. issued the Notes to use the proceeds, together with cash on hand, to repurchase, at 114% of the principal amount, $107,500 of Maiden's $260,000 outstanding trust preferred securities, on a pro rata basis, to all of its trust preferred securities holders. ACP Re, Ltd., an entity owned by a trust controlled by Michael Karfunkel, the Company's Chairman of the Board, accepted the offer to repurchase its $79,066 in principal amount of trust preferred securities. The Company's Audit Committee reviewed and approved the Company's participation in this offering.

American Capital Acquisition Corporation

During the three months ended March 31, 2010, the Company completed its strategic investment in American Capital Acquisition Corporation (''ACAC''). ACAC was formed by The Michael Karfunkel 2005 Grantor Retained Annuity Trust (the ''Trust'') and the Company for the purpose of acquiring from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation (''MIC'', together with GMAC Insurance Holdings, Inc., ''GMACI''), GMACI's U.S. consumer property and casualty insurance business (the ''GMACI Business''), a writer of automobile coverages through independent agents in the United States. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the ''GMACI Insurers''). Michael Karfunkel, individually, and the Trust, which is controlled by Michael Karfunkel, own 100% of ACAC's common stock (subject to the Company's conversion rights described below). Michael Karfunkel is the chairman of the board of directors of the Company and the father-in-law of Barry D. Zyskind, the chief executive officer of the Company. The ultimate beneficiaries of the Trust include Michael Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman of the Board of Directors of ACAC.

Pursuant to the Amended Stock Purchase Agreement, ACAC issued and sold to the Company for an initial purchase price of approximately $53,000, which was equal to 25% of the capital initially required by ACAC, 53,054 shares of Series A Preferred Stock, which provides an 8% cumulative dividend, is non-redeemable and is convertible, at the Company's option, into 21.25% of the issued and outstanding common stock of ACAC (the ''Preferred Stock''). The Company has pre-emptive rights with respect to any future issuances of securities by ACAC and the Company's conversion rights are subject to customary anti-dilution protections. The Company has the right to appoint two members of ACAC's board of directors, which consists of six members. Subject to certain limitations, the board of directors of ACAC may not take any action in the absence of the Company's appointees and ACAC may not take certain corporate actions without the unanimous prior approval of its board of directors (including the Company's appointees).

The Company, the Trust and Michael Karfunkel, individually, each shall be required to make its or his proportionate share of deferred payments payable by ACAC to GMACI pursuant to the GMACI Securities Purchase Agreement, which are payable, annually on March 1 through March 1, 2013, to the extent that ACAC is unable to otherwise provide for such payments. The Company's proportionate share of such deferred payments as of December 31, 2011 will not exceed $15,000. In addition, in connection with the Company's investment, ACAC will grant the Company a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMACI.

In accordance with ASC 323-10-15, *Investments-Equity Method and Joint Ventures*, the Company accounts for its investment in ACAC under the equity method. The Company recorded $7,871 and $25,332 of income during the years ended December 31, 2011 and 2010, respectively related to its equity investment in ACAC. The decrease in equity income in 2011 primarily related to the initial acquisition gain on ACAC of $10,450 the Company recognized during 2010 that was adjusted downward during 2011 by $3,614. Absent this adjustment for purchase price accounting, the earnings related to ACAC decreased to $11,485 in 2011 from $14,882 in 2010.

13. Related Party Transactions – (continued)

Personal Lines Quota Share

The Company, effective March 1, 2010, reinsures 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement (''Personal Lines Quota Share'') among Integon National Insurance Company, lead insurance company on behalf of the GMACI Insurers, as cedents, and the Company, ACP Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, receive 50% of the net premium of the GMACI Insurers and assume 50% of the related net losses. The Company has a 20% participation in the Personal Lines Quota Share, by which it receives 10% of the net premiums of the personal lines business and assumes 10% of the related net losses. The Personal Lines Quota Share has an initial term of three years and will renew automatically for successive three-year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. In addition, either party is entitled to terminate on 60 days' written notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of the Company or the GMACI Insurers, run-off, or a reduction of 50% or more of the shareholders' equity. The GMACI Insurers also may terminate on nine months' written notice following the effective date of an initial public offering or private placement of stock by ACAC or a subsidiary. The Personal Lines Quota Share provides that the reinsurers pay a provisional ceding commission equal to 32.5% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.5% or less and a minimum of 30.5% if the loss ratio is 64.5% or higher. The Personal Lines Quota Share is subject to a premium cap that limits the premium that could be ceded by the GMACI Insurers to TIC to $121,000 during calendar year 2011 to the extent TIC was to determine, in good faith, that it could not assume additional premium. The premium cap increases by 10% per annum thereafter. As a result of this agreement, the Company assumed $102,598 and $82,295 of business from the GMACI Insurers during the years ended December 31, 2011 and 2010, respectively.

Information Technology Services Agreement

The Company provides ACAC and its affiliates information technology development services in connection with the development of a policy management system at a price of cost plus 20% pursuant to a Master Services Agreement with GMAC Insurance Management Corporation, a wholly-owned subsidiary of ACAC. In addition, as consideration for a license for ACAC and its affiliates to use that system, the Company receives a license fee in the amount of 1.25% of gross premiums of ACAC and its affiliates plus the Company's costs for support services. The Company recorded approximately $4,022 and $2,022 of fee income for the years ended December 31, 2011 and 2010, respectively, related to this agreement.

Asset Management Agreement

The Company manages the assets of ACAC and its subsidiaries for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1,000,000 or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1,000,000. The Company currently manages approximately $750,000 of assets as of December 31, 2011 related to this agreement. As a result of this agreement, the Company earned approximately $1,550 and $1,456 of investment management fees for the years ended December 31, 2011 and 2010, respectively.

As a result of the above service agreements with ACAC, the Company recorded fees totaling approximately $5,572 and $3,478 for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011, the outstanding balance payable by ACAC related to these service fees and reimbursable costs was approximately $1,089.

13. Related Party Transactions – (continued)

800 Superior LLC

In August 2011, the Company formed 800 Superior, LLC with a subsidiary of ACAC for the purposes of acquiring an office building in Cleveland, Ohio. The Company and ACAC each have a fifty percent ownership interest in 800 Superior, LLC. The cost of the building was approximately $7,500. The Company has been appointed managing member of the LLC. The Company's Audit Committee reviewed and approved this joint purchase with ACAC. Additionally in conjunction with the Company's 21.25% ownership percentage of ACAC, the Company ultimately receives 60.6% of the profits and losses of the LLC. As such, in accordance with ASC 810-10, *Consolidation,* the Company has been deemed the primary beneficiary and, therefore, consolidates this entity. The results of operations of the LLC did not have a material impact on the Company's results of operations for the year ended December 31, 2011.

Diversified

Diversified Construction Management, LLC (''Diversified'') provided construction management and general contractor services for a Company subsidiary between 2009 and 2011. The Company recorded a total of $201, $423 and $260 for the years ended December 31, 2011, 2010 and 2009, respectively, for Diversified's services in connection with the construction project. Robert A. Saxon, Jr., a principal of Diversified, is the brother of Michael J. Saxon, the Company's Chief Operating Officer. During several prior years, Diversified provided similar services to the Company. While the initial arrangements were not pre-approved by the Audit Committee, upon subsequent review, the Audit Committee determined that the contracts were not less favorable to the Company than similar services provided at arms-length and approved future contracts.

Lease Agreements

In January 2008, the Company entered into an amended agreement for its office space at 59 Maiden Lane in New York, New York from 59 Maiden Lane Associates, LLC, an entity that is wholly-owned by Michael Karfunkel and George Karfunkel. The lease was amended such that it increased the leased space to 14,807 square feet and extended the lease through December 31, 2017. The Company's Audit Committee reviewed and approved the extension of the lease. The Company paid approximately $665 and $689 for the lease for the years ended December 31, 2011 and 2010, respectively.

In January 2011, the Company entered into an amended agreement to lease office space in Chicago, Illinois from 33 West Monroe Associates, LLC, an entity that is wholly-owned by entities controlled by Michael Karfunkel and George Karfunkel. The lease was amended to increase the leased space to 9,030 square feet and extend the lease through October 31, 2017. The Company's Audit Committee reviewed and approved this amended lease agreement. The Company paid approximately $285 and $257 for the years ended December 31, 2011 and 2010, respectively.

Use of Company Aircraft

The Company's wholly-owned subsidiary, AmTrust Underwriters, Inc. (''AUI''), is a party to an aircraft time share agreement with each of Maiden and ACAC. The agreements provide for payment to AUI for usage of its company-owned aircraft and covers actual expenses incurred and permissible under federal aviation regulations, including travel and lodging expenses of the crew, in-flight catering, flight planning and weather contract services, ground transportation, fuel, landing and hanger fees, airport taxes, among others. AUI does not charge Maiden or ACAC for the fixed costs that would be incurred in any event to operate the aircraft (for example, aircraft purchase costs, insurance and flight crew salaries). During the year ended December 31, 2011, Maiden and ACAC paid AUI $74 and $185, respectively, for the use of AUI's aircraft under these agreements.

13. Related Party Transactions – (continued)

In addition, for personal travel, Mr. Zyskind, the Company's President and Chief Executive Officer and Michael Karfunkel, the Chairman of the Board, each entered into an aircraft reimbursement agreement with AUI and, since entering into such agreement, has fully reimbursed AUI for the incremental cost billed by AUI for their personal use of AUI's aircraft, which for the year ended December 31, 2011 was $200 and $30, respectively. The Company's Audit Committee reviewed and approved the time share and reimbursement agreements.

14. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses:

(Amounts in Thousands)	2011	2010	2009
Policy acquisition expenses	$256,464	$180,757	$120,182
Salaries and benefits	119,171	97,934	80,179
Other insurance general and administrative expense	22,769	24,118	43,918
	$398,404	$302,809	$244,279

15. Share Based Compensation

During 2010, the Company adopted the 2010 Omnibus Incentive Plan (the ''Plan''), which permits the Company to grant to officers, employees and non-employee directors of the Company incentive compensation directly linked to the price of the Company's stock. This plan replaced the 2005 Equity Incentive Plan. The Plan authorizes up to an aggregate of 6,045,511 shares of Company stock for awards of options to purchase shares of the Company's common stock, restricted stock, restricted stock units (''RSU'') or appreciation rights. Shares used may be either newly issued shares or treasury shares or both. The aggregate number of shares of common stock for which awards may be issued may not exceed 6,045,511 shares, subject to the authority of the Company's board of directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting the Company's common stock. All remaining unissued shares related to the Company's previously existing 2005 and Equity and Incentive Plan were absorbed into the Plan. As of December 31, 2011, approximately 5,500,000 shares of Company common stock remained available for grants under the Plan.

The Company recognizes compensation expense under FASB ASC 718-10-25 for its share-based payments based on the fair value of the awards. The Company grants stock options at prices equal to the closing stock price of the Company's stock on the dates the options are granted. The options have a term of ten years from the date of grant and vest primarily in equal annual installments over the four-year period following the date of grant for employee options. Employees have three months after the employment relationship ends to exercise all vested options. The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense.

15. Share Based Compensation – (continued)

A summary of the Company's stock option activity for the years ended December 31, 2011, 2010 and 2009 is shown below:

	2011		2010		2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,126,926	$10.46	4,168,089	$10.12	3,728,500	$ 9.88
Granted	235,000	16.83	276,250	14.24	565,539	10.95
Forfeited	(64,533)	14.96	(116,500)	11.16	(92,250)	9.26
Exercised	(525,605)	9.20	(200,913)	8.10	(33,700)	7.50
Outstanding at end of year	3,771,788	$10.96	4,126,926	$10.46	4,168,089	$10.12

The fair value was estimated at the date of grant with the following weighted average assumptions for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Volatility	32.75%	31.43%	31.04%
Risk-free interest rate	2.11%	1.92%	2.50%
Weighted average expected lives in years	6.25	6.25	6.25
Dividend rate	1.65%	1.98%	1.98%
Forfeiture rate	0.50%	0.50%	1.45%

The weighted average grant date fair value of options granted was $6.97, $3.94 and $3.04 during 2011, 2010 and 2009, respectively. As of December 31, 2011 and 2010, all option grants outstanding had an approximate weighted average remaining life of 5.8 and 6.7 years, respectively. As of December 31, 2011 and 2010, there were approximately 3,166,000 shares and 3,118,000 shares, respectively, with a weighted average exercise price of $10.26 and $9.62, respectively, which were exercisable.

A summary of the Company's restricted stock and restricted stock unit activity for the years ended December 31, 2011 and 2010 is shown below:

	2011		2010	
	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value
Non-vested at beginning of year	139,388	$14.04	—	$ —
Granted	204,260	20.39	140,828	14.04
Vested	(44,225)	14.08	—	—
Forfeited	(8,193)	19.99	(1,440)	13.92
Non-vested at end of year	291,230	$22.24	139,388	$14.04

Compensation expense for all share-based payments under ASC 718-10-30 was approximately $5,571, $3,386 and $4,241 for the years ended December 31, 2011, 2010 and 2009, respectively. The Company had approximately $5,346, $4,189 and $5,144 of unrecognized compensation cost related to all share based compensation as of December 31, 2011, 2010 and 2009, respectively.

15. Share Based Compensation – (continued)

The intrinsic value of stock options exercised during 2011, 2010 and 2009 was $6,957, $1,286 and $152, respectively. The intrinsic value of stock options that were outstanding as December 31, 2011 and 2010 was $48,247 and $29,044, respectively.

Cash received from options exercised was $5,425, $1,700 and $315 during 2011, 2010 and 2009 respectively.

16. Income Taxes

The provision for income taxes consists of the following for the years ended December 31, 2011, 2010 and 2009:

(Amounts in Thousands) Income Tax Provision (Benefit)	2011	2010	2009
Current expense (benefit)			
Federal	$ 11,147	$ 20,693	$11,856
Foreign	21,345	9,165	3,321
Total current tax expense	32,492	29,858	15,177
Deferred expense (benefit)			
Federal	$ 40,462	$ 35,623	$19,683
Foreign	(30,582)	(18,428)	(7,401)
Total deferred tax expense	9,880	17,195	12,282
Total income tax expense	$ 42,372	$ 47,053	$27,459

The following table is a reconciliation of the Company's statutory income tax expense to its effective tax rate for the years ended December 31, 2011, 2010 and 2009:

(Amounts in Thousands)	2011	2010	2009
Effective tax rate			
Income before equity in earnings (loss) of unconsolidated subsidiaries	$228,654	$171,401	$131,504
Tax at federal statutory rate of 35%	$ 80,029	$ 59,990	$ 46,026
Tax effects resulting from:			
Net income of non-includible foreign subsidiaries	(29,063)	(19,483)	(12,905)
Foreign currency gain	861	(247)	(864)
Other, net	(9,455)	6,793	(4,798)
	$ 42,372	$ 47,053	$ 27,459
Effective tax rate	18.5%	27.5%	20.9%

16. Income Taxes – (continued)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of December 31, 2011 and 2010 are shown below:

(Amounts in Thousands)	2011	2010
Deferred tax assets:		
Unearned premiums	$ 55,140	$ 37,930
Ceding commission	49,882	31,749
Other	15,164	12,195
Carryforward loss	14,579	20,990
Bad debt	4,904	4,628
Deferred compensation	4,837	4,132
Losses and LAE reserves	—	6,718
	$ 144,506	$ 118,342
Deferred tax liabilities:		
Deferred acquisition costs	$(147,819)	$(110,384)
Losses and LAE reserves	(56,869)	—
Intangible assets	(17,175)	—
Depreciation	(12,379)	(5,501)
Equity results which cannot be liquidated tax free	(8,796)	(4,179)
Other	(6,299)	(4,610)
Accrual market discount	(2,062)	(1,674)
Cash surrender value on insurance	(1,882)	(1,877)
	(253,281)	(128,225)
Deferred tax liability, net	$(108,775)	$ (9,883)

The Company's management believes that it will realize the benefits of its deferred tax asset and, accordingly, no valuation allowance has been recorded for the periods presented. A provision has not been made for the U.S. or additional foreign taxes on undistributed earnings of foreign subsidiaries, which have been, and will continue to be reinvested. These earnings could become subject to additional tax if they were remitted as dividends, if foreign earnings were loaned to the parent entity or a U.S. affiliate, or if the Company should sell its stock in its foreign subsidiaries. It is not practicable to determine the amount of additional tax, if any, that might be payable on foreign earnings. The deferred tax liability related to loss and LAE reserves of $56,869 includes a deferred tax liability of $88,576 for equalization reserves that were acquired as part of the AmTrust Re 2007, AmTrust Re Alpha, AmTrust Re Kappa, and AmTrust Re Zeta acquisitions.

The Company's major taxing jurisdictions include the U.S. (federal and state), the United Kingdom and Ireland. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the Company's statute of limitation is open for tax years ended December 31, 2007 and forward. As permitted by FASB ASC 740-10, the Company adopted an accounting policy to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. Previously, the Company's policy was to classify interest and penalties as an operating expense in arriving at pre-tax income. At December 31, 2011, the Company does not have any accrued interest and penalties related to unrecognized tax benefits in accordance with FASB ASC 740-10.

16. Income Taxes – (continued)

The earnings of certain of the Company's foreign subsidiaries have been indefinitely reinvested in foreign operations. Therefore, no provision has been made for any U.S. taxes or foreign withholding taxes that may be applicable upon any repatriation or sale. The determination of any unrecognized deferred tax liability for temporary differences related to investments in certain of the Company's foreign subsidiaries is not practicable. At December 31, 2011 and 2010, the financial reporting basis in excess of the tax basis for which no deferred taxes have been recognized was approximately $223,000 and $163,400, respectively.

A reconciliation of the total amounts of gross unrecognized tax benefits is as follows:

(Amounts in Thousands)	2011	2010
Gross unrecognized tax benefit as of January 1	$ 1,017	$ 5,293
Decreases in tax positions for prior years	(1,017)	(4,325)
Increases in tax positions for prior years	—	49
Decreases in tax positions for current year	—	—
Increases in tax positions for current year	—	—
Lapse in statute of limitations	—	—
Settlements	—	—
Gross unrecognized tax benefits as of December 31	$ —	$ 1,017

Listed below are the tax years that remain subject to examination by major tax jurisdictions:

	Open Tax Years
Major tax jurisdictions:	
United States	2008 – 2011
United Kingdom	2009 – 2011
Ireland	2007 – 2011

17. Employee Benefit Plans

The Company sponsors a defined contribution pension plan. Participation in this plan is available to a majority of employees. Contributions to this plan were based on a percentage of employee contributions. The cost of this plan for the Company was approximately $1,397, $1,172 and $1,021 for the years ended December 31, 2011, 2010 and 2009, respectively.

18. Earnings per Share

Effective January 1, 2009, the Company adopted ASC subtopic 260-10, *Determining Whether Instruments Granted in Share-Based Payments Transactions Are Participating Securities*. ASC 260-10 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and are to be included in the computation of earnings per share under the two-class method. The Company's unvested restricted shares contain rights to receive nonforfeitable dividends and are participating securities, requiring the two-class method of computing earnings per share. There were no participating securities issued in 2009.

The following, is a summary of the elements used in calculating basic and diluted earnings per share for the years ended December 31, 2011, 2010 and 2009:

(Amounts in Thousands, except for earnings per share)	2011	2010	2009
Basics earnings per share:			
Net income attributable to AmTrust Financial Services, Inc. shareholders	$170,434	$142,465	$103,223
Less: Net income allocated to participating securities and redeemable non-controlling interest	111	81	—
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$170,323	$142,384	$103,223
Weighted average shares outstanding – basic	59,875	59,491	59,433
Less: Weighted average participating shares outstanding	39	38	—
Weighted average common shares outstanding – basic	59,836	59,453	59,433
Net income per AmTrust Financial Services, Inc. common shares – basic	$ 2.85	$ 2.39	$ 1.74
Diluted earnings per share:			
Net income attributable to AmTrust Financial Services, Inc. shareholders	$170,434	$142,465	$103,223
Less: Net income allocated to participating securities and redeemable non-controlling interest	111	81	—
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$170,323	$142,384	$103,223
Weighted average common shares outstanding – basic	59,836	59,453	59,433
Plus: Dilutive effect of stock options, other	1,746	893	521
Weighted average common shares outstanding – dilutive	61,582	60,346	59,954
Net income per AmTrust Financial Services, Inc. common shares – diluted	$ 2.77	$ 2.36	$ 1.72

As of December 31, 2011, there were less than 100,000 anti-dilutive securities excluded from diluted earnings per share.

19. Accumulated Other Comprehensive Income (Loss)

(Amounts in Thousands)	Foreign Currency Items	Unrealized Gains (Losses) on Investments	Interest Rate Swap Hedge	Accumulated Other Comprehensive Income
Balance, December 31, 2008	$(12,319)	$(93,496)	$ —	$(105,815)
Current period changes, net of tax	4,863	83,932	—	88,795
Balance, December 31, 2009	(7,456)	(9,564)	—	(17,020)
Current period changes, net of tax	(4,820)	21,574	—	16,754
Balance, December 31, 2010	(12,276)	12,010	—	(266)
Current period changes, net of tax	(4,815)	(2,638)	(2,280)	(9,733)
Balance, December 31, 2011	$(17,091)	$ 9,372	$(2,280)	$ (9,999)

20. Commitments and Contingencies

Litigation

The Company's insurance subsidiaries are named as defendants in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the loss and LAE reserves. The Company's management believes the resolution of those actions will not have a material adverse effect on the Company's financial position or results of operations.

Vehicle service contract industry inquiry and related proceedings

As disclosed in Part I, Item 3 of this Annual Report on Form 10-K, the states of Texas, Washington and Ohio, by and through the offices of their respective Attorneys General, are acting as the Executive Committee of a multi-state Attorneys General task force (the ''Multi-State Task Force'') that is making inquiries into the vehicle service contract industry focusing on former third party administrators of U.S. Fidelis, a direct marketer of vehicle service contracts that filed a petition for Chapter 11 bankruptcy protection in February 2010 in the United States Bankruptcy Court for the Eastern District of Missouri (the ''Bankruptcy Proceeding''). The inquiries relate to the handling of payment of customer refunds in the absence of U.S. Fidelis fulfilling such obligations and violation by U.S. Fidelis of consumer protection statutes in the course of marketing and selling vehicle service contracts to consumers across the country. In connection with such inquiry, on or about January 14, 2011, the Company's subsidiary, Warrantech Corporation (''Warrantech''), received an inquiry from the Texas Attorney General's office because Warrantech was a non-exclusive third party administrator of U.S. Fidelis between 2006 and 2009. Warrantech is working with the Executive Committee to resolve the matter as part of the Bankruptcy Proceeding, as discussed below.

On March 10, 2011, Warrantech received a demand letter from Mepco Finance Corporation (''Mepco'') related to certain damages Mepco allegedly incurred in connection with vehicle service contracts marketed and sold by U.S. Fidelis, financed by Mepco, and administered by Warrantech. Mepco claims that under the terms of an agreement between Warrantech and Mepco, Warrantech is obligated to indemnify Mepco for damages incurred resulting from the failure of U.S. Fidelis to repay certain amounts to Mepco on cancelled vehicle service contracts that were marketed and sold by U.S. Fidelis, financed by Mepco, and administered by Warrantech.

Warrantech disputes that it owes Mepco any amounts resulting from the failure of U.S. Fidelis to repay Mepco for certain cancelled vehicle service contracts. On September 13, 2011, Warrantech commenced an adversary proceeding against Mepco in the Bankruptcy Proceeding, Case Number 11-04313 (the ''Adversary Proceeding''). In the Adversary Proceeding, Warrantech is seeking a judicial determination that Mepco breached the agreement between the parties and, as result, Warrantech has incurred damages in connection with the marketing and sales of vehicle service contracts by U.S. Fidelis and Mepco's financing of those vehicle service contracts. In addition, Warrantech is seeking a declaratory judgment that any contractual

20. Commitments and Contingencies – (continued)

obligation it may have had to indemnify or reimburse Mepco for unpaid amounts due from U.S. Fidelis is unenforceable due to Mepco's own conduct.

In a related proceeding, the Official Committee of the Unsecured Creditors (the ''Creditors Committee'') also commenced an adversary proceeding against Mepco in the Bankruptcy Proceeding, Case Number 10-41902-705. In that proceeding, the Creditors Committee asserts, among other things, that Mepco's pre- and post-petition bankruptcy claims should be subordinated due to Mepco's inequitable conduct.

On September 28, 2011, the Multi-State Task Force, acting through its Executive Committee, filed a motion in the Bankruptcy Proceeding requesting that the Bankruptcy Court issue an order compelling Mepco, Warrantech, the Creditors Committee and the Executive Committee to mediate the claims asserted in the Adversary Proceeding and the issues raised by the Multi-State Task Force. On December 19 and December 20, 2011, Mepco, Warrantech, the Creditors Committee, the Executive Committee and counsel representing WARN Act claimants participated in the mediation conducted in Austin, Texas. As a result of this mediation, the parties are currently negotiating a potential settlement of the Adversary Proceeding and the Multi-State Task Force inquiry.

Lease Commitments

The Company is obligated under approximately 49 leases for office space expiring at various dates through 2032. Future minimum lease payments as of December 31, 2011 under non-cancellable operating leases for each of the next five years are approximately as follows:

(Amounts in Thousands)	
2012	$ 8,403
2013	7,871
2014	7,564
2015	6,931
2016	6,487
2017 and Thereafter	25,096
	$62,352

Rent expense for the years ended December 31, 2011, 2010 and 2009 was $10,451, $8,490 and $6,869, respectively.

Employment Agreements

The Company has employment agreements with approximately 26 of its key executives and employees. The agreements terminate on varying dates through 2020, contain annual minimum levels of compensation, and contain bonuses based on the Company's achieving certain financial targets. The annual future minimums in the aggregate are as follows through 2020:

(Amounts in Thousands)	
2012	$ 9,474
2013	4,508
2014	2,102
2015	2,102
2016	2,102
2017 and Thereafter	2,207
	$22,495

21. Dividend Restriction and Risk Based Capital

The Company's insurance subsidiaries are subject to statutory and regulatory restrictions, applicable to insurance companies, imposed by the states of domicile, which limit the amount of cash dividends or distributions that they may pay and was approximately $306,100 and $253,000 as of December 31, 2011 and 2010, respectively. During 2011, 2010 and 2009, the Company received a dividend of approximately $5,800, $5,000 and $4,500, respectively, from one of its subsidiaries.

Property and casualty insurance companies in the United States are subject to certain Risk-Based Capital (''RBC'') requirements as specified by the National Association of Insurance Commissioners. Under such requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined on various risk factors. As of December 31, 2011 and 2010, the capital and surplus of the Company's eight insurance subsidiaries domiciled in the United States exceeded the RBC requirements.

22. Statutory Financial Data

The Company's insurance subsidiaries file financial statements in accordance with statutory accounting practices (''SAP'') prescribed or permitted by domestic or foreign insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between domestic and foreign jurisdictions. The principal differences relate to (1) acquisition costs incurred in connection with acquiring new business which are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) limitation on net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and loss expense, and unearned premium reserves are presented gross of reinsurance with a corresponding asset recorded; and (4) fixed maturity portfolios that are carried at fair value and changes in fair value are reflected directly in unassigned surplus, net of related deferred taxes.

Statutory surplus and net income for insurance operations as reported to regulatory authorities were approximately as follows:

(Amounts in Thousands) December 31, 2011	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$193,036	$215,664	$ 1,721	$ 13,849
RIC (domestic)	46,107	52,313	903	1,524
WIC (domestic)	82,580	84,260	5,590	7,386
AIIC (domestic)	72,034	76,513	13,546	12,348
SNIC (domestic)	31,493	32,772	3,338	4,050
MCIC (domestic)	12,512	13,000	936	984
ALIC (domestic)	2,128	2,128	—	—
AICK (domestic)	12,852	13,324	22	(26)
AEL (United Kingdom)	160,724	169,932	51,240	54,721
AIU (Ireland)	106,574	119,692	39,927	39,509
AII (Bermuda)	369,336	518,206	120,904	120,904

22. Statutory Financial Data – (continued)

(Amounts in Thousands) December 31, 2010	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$186,470	$203,052	$11,473	$13,104
RIC (domestic)	43,957	50,023	4,445	6,197
WIC (domestic)	60,943	62,538	5,234	7,401
AIIC (domestic)	58,391	63,508	10,988	10,660
SNIC (domestic)	16,921	17,665	1,372	1,158
MCIC (domestic)	11,599	12,032	793	655
ALIC (domestic)	2,081	2,146	8	8
AICK (domestic)	12,718	13,372	836	817
AEL (United Kingdom)	89,710	89,710	14,161	14,223
AIU (Ireland)	128,028	135,880	22,117	17,589
AII (Bermuda)	286,714	406,088	52,312	52,312

(Amounts in Thousands) December 31, 2009	Statutory Surplus	GAAP Equity	Statutory Net Income	GAAP Net Income
TIC (domestic)	$167,316	$178,467	$15,259	$16,338
RIC (domestic)	36,782	40,460	8,772	9,413
WIC (domestic)	52,875	53,511	6,806	7,402
AIIC (domestic)	51,636	58,646	10,973	11,425
SNIC (domestic)	15,641	16,252	231	149
MCIC (domestic)	10,967	11,258	514	422
ALIC (domestic)	2,116	2,121	11	—
AICK (domestic)	9,648	10,035	(263)	(207)
AEL (United Kingdom)	37,785	37,785	2,015	2,266
AIU (Ireland)	96,329	111,156	15,387	13,999
AII (Bermuda)	224,823	327,681	17,891	17,891

23. Geographic Information

Three of the Company's insurance subsidiaries (AII, AIU and AEL) operate outside the United States. Their assets and liabilities are located principally in the countries where the insurance risks are written or assumed. For both 2011 and 2010, 34% of the Company's gross written premiums related to foreign risks, of which 37% were written from the United Kingdom. For 2009, 21% of the Company's gross written premiums related to foreign risks, of which 47% were written from the United Kingdom. As of December 31, 2011 and 2010, approximately 46% and 47%, respectively, of the consolidated assets were located outside the United States. For the years ended 2011, 2010 and 2009, approximately 77%, 70% and 66%, respectively, of the consolidated revenues earned were located in or derived from foreign countries.

The domestic and foreign components of Income before equity in earnings (loss) of unconsolidated subsidiaries for the years ended December 31, 2011, 2010 and 2009 are as follows:

(Amounts in Thousands)	2011	2010	2009
Domestic	$ 24,328	$ 65,882	$ 73,542
Foreign	204,326	105,519	57,962
	$228,654	$171,401	$131,504

23. Geographic Information – (continued)

The following table summarizes the Company's operations by major geographic segment:

(Amounts in Thousands)	Domestic	Bermuda	Other Foreign
December 31, 2011:			
Revenue	$306,915	$865,262	$169,406
Property and equipment	58,682	—	2,871
December 31, 2010:			
Revenue	$299,340	$603,827	$ 99,291
Property and equipment	30,340	—	549
December 31, 2009:			
Revenue	$249,934	$429,042	$ 61,235
Property and equipment	15,428	—	430

24. Segments

The Company currently operates four business segments, Small Commercial Business; Specialty Risk and Extended Warranty; Specialty Program and Personal Lines Reinsurance (began in 2010 with the investment in ACAC). The ''Corporate & Other'' segment represents the activities of the holding company as well as a portion of service and fee revenue. In determining total assets (excluding cash and invested assets) by segment, the Company identifies those assets that are attributable to a particular segment such as deferred acquisition cost, reinsurance recoverable, goodwill, intangible assets and prepaid reinsurance while the remaining assets are allocated based on net written premium by segment. In determining cash and invested assets by segment, the Company matches certain identifiable liabilities such as unearned premium and loss and loss adjustment expense reserves by segment. The remaining cash and invested assets are then allocated based on net written premium by segment. Investment income and realized gains (losses) are determined by calculating an overall annual return on cash and invested assets and applying that overall return to the cash and invested assets by segment. Ceding commission revenue is allocated to each segment based on that segment's proportionate share of the Company's overall acquisition costs. Interest expense is allocated based on net written premium by segment. Income taxes are allocated on a pro rata basis based on the Company's effective tax rate. Additionally, management reviews the performance of underwriting income in assessing the performance of and making decisions regarding the allocation of resources to the segments. Underwriting income excludes, primarily, service and fee revenue, investment income and other revenues, other expenses, interest expense and income taxes. Management believes that providing this information in this manner is essential to providing Company's shareholders with an understanding of the Company's business and operating performance.

The Company's Specialty Risk and Extended Warranty segment derived over ten percent of gross written premium from one broker in 2011 and was approximately $237,000. In both 2011 and 2010, the Specialty Program segment derived over ten percent of gross written premium from one program and was approximately $66,000 and $59,000, respectively.

24. Segments – (continued)

The following tables summarize business segments as follows for 2011, 2010 and 2009:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Year ended December 31, 2011:						
Gross premium written	$ 609,822	$1,056,511	$ 381,541	$102,598	—	$ 2,150,472
Net premium written	355,721	615,563	202,715	102,598	—	1,276,597
Change in unearned premium	(35,455)	(168,798)	(31,340)	(4,143)	—	(239,736)
Net earned premium	320,266	446,765	171,375	98,455	—	1,036,861
Ceding commission – primarily related party	62,093	57,648	34,212	—	—	153,953
Loss and loss adjustment expense	(201,921)	(297,501)	(114,685)	(64,226)	—	(678,333)
Acquisition costs and other underwriting expenses	(148,041)	(137,442)	(81,568)	(31,353)	—	(398,404)
	(349,962)	(434,943)	(196,253)	(95,579)	—	(1,076,737)
Underwriting income	32,397	69,470	9,334	2,876	—	114,077
Service, fee and other revenues	20,887	67,312	17	—	20,444	108,660
Investment income and realized gain (loss)	23,385	22,708	10,104	2,086	—	58,283
Other expenses	(25,000)	(43,354)	(15,143)	(3,114)	—	(86,611)
Interest expense	(4,641)	(8,049)	(2,811)	(578)	—	(16,079)
Foreign currency loss	—	(2,418)	—	—	—	(2,418)
Gain on life settlement contracts	13,535	23,472	8,199	1,686	—	46,892
Acquisition gain on purchase	5,850	—	—	—	—	5,850
Provision for income taxes	(11,897)	(23,135)	(1,738)	(530)	(5,072)	(42,372)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	—	7,871	7,871
Non-controlling interest	(6,846)	(11,873)	(4,147)	(853)	—	(23,719)
Net income attributable to AmTrust Financial Services, Inc.	$ 47,670	$ 94,133	$ 3,815	$ 1,573	$23,243	$ 170,434

24. Segments – (continued)

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Year ended December 31, 2010:						
Gross premium written	$ 465,951	$ 748,525	$ 264,051	$ 82,295	—	$1,560,822
Net premium written	243,146	362,100	139,685	82,295	—	827,226
Change in unearned premium	9,296	(58,517)	568	(32,914)	—	(81,567)
Net earned premium	252,442	303,583	140,253	49,381	—	745,659
Ceding commission – primarily related party	66,282	48,015	23,964	—	—	138,261
Loss and loss adjustment expense	(154,442)	(191,149)	(94,261)	(31,629)	—	(471,481)
Acquisition costs and other underwriting expenses	(128,142)	(98,547)	(60,071)	(16,049)	—	(302,809)
	(282,584)	(289,696)	(154,332)	(47,678)	—	(774,290)
Underwriting income	36,140	61,902	9,885	1,703	—	109,630
Service, fee and other revenues	19,696	29,729	—	—	12,642	62,067
Investment income and realized gain (loss)	21,951	20,339	11,616	2,564	—	56,470
Other expenses	(17,966)	(24,443)	(10,397)	(3,597)	—	(56,403)
Interest expense	(4,110)	(5,591)	(2,378)	(823)	—	(12,902)
Foreign currency gain	—	684	—	—	—	684
Gain on life settlement contracts	3,776	5,138	2,185	756	—	11,855
Provision for income taxes	(16,331)	(24,091)	(2995)	(166)	(3,470)	(47,053)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	—	24,044	24,044
Non-controlling interest	(1,887)	(2,569)	(1,093)	(378)	—	(5,927)
Net income attributable to AmTrust Financial Services, Inc.	$ 41,269	$ 61,098	$ 6,823	$ 59	$33,216	$ 142,465

24. Segments – (continued)

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Corporate and Other	Total
Year ended December 31, 2009:					
Gross premium written	$ 469,627	$ 461,338	$ 267,981	$ —	$1,198,946
Net premium written	255,496	245,604	142,326	—	643,426
Change in unearned premium	(16,525)	(55,378)	2,359	—	(69,544)
Net earned premium	238,971	190,226	144,685	—	573,882
Ceding commission – primarily related party	59,415	25,909	28,607	—	113,931
Loss and loss adjustment expense	(137,525)	(98,797)	(91,449)	—	(327,771)
Acquisition costs and other underwriting expenses	(119,734)	(55,551)	(68,994)	—	(244,279)
	(257,259)	(154,348)	(160,443)	—	(572,050)
Underwriting income	41,127	61,787	12,849	—	115,763
Service and fee revenues	12,323	9,841	—	8,526	30,690
Investment income, realized gain (loss) and loss on managed assets	9,880	6,731	5,097	—	21,708
Other expenses	(9,073)	(8,114)	(5,045)	—	(22,232)
Interest expense	(6,890)	(6,162)	(3,832)	—	(16,884)
Foreign currency gain	—	2,459	—	—	2,459
Provision for income taxes	(9,891)	(13,894)	(1,894)	(1,780)	(27,459)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	(822)	(822)
Net income	$ 37,476	$ 52,648	$ 7,175	$ 5,924	$ 103,223

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and other	Total
As of December 31, 2011:						
Fixed assets	$ 17,767	$ 30,811	$ 10,762	$ 2,213	$ —	$ 61,553
Goodwill and intangible assets	123,976	167,782	22,858	—	—	314,616
Total assets	2,151,924	2,483,923	913,141	133,566	—	5,682,554
As of December 31, 2010:						
Fixed assets	$ 9,839	$ 13,386	$ 5,694	$ 1,970	$ —	$ 30,889
Goodwill and intangible assets	87,001	95,737	15,088	—	—	197,826
Total assets	1,581,946	1,716,980	741,835	141,692	—	4,182,453

25. Equity Investment in Unconsolidated Subsidiary

The following table summarizes total assets and total liabilities as of December 31, 2011 and 2010, and the results of operations for the Company's unconsolidated equity method investment in ACAC for the years ended December 31, 2011 and 2010:

(Amounts in Thousands)	As of December 31, 2011	As of December 31, 2010
Balance sheet data:		
Investments	$ 782,711	$ 840,504
Premiums and other receivables	441,817	363,505
Reinsurance recoverable – unpaid loss	775,444	695,023
Total assets	2,403,477	2,229,662
Reserve for insurance loss and loss adjustment expenses	1,053,137	1,081,630
Unearned insurance premiums and revenue	449,598	443,910
Total liabilities	2,026,179	1,903,984

	2011	2010
Results of operations:		
Gross written premium	$1,172,686	$904,553
Net earned premium	498,205	560,917
Income from continuing operations	54,046	70,034
Net income	54,046	119,211

26. Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results of operations:

(Amounts in Thousands)	2011 March 31,	June 30,	September 30,	December 31,
Earned premium	$200,338	$248,282	$288,848	$299,393
Investment income	14,192	13,167	14,456	13,700
Net income	51,321	56,644	40,653	37,393
Income attributable to Common Shareholders	45,183	50,162	37,166	37,923
Basic EPS	0.76	0.84	0.62	0.63
Diluted EPS	0.74	0.81	0.60	0.61

	2010 March 31,	June 30,	September 30,	December 31,
Earned premium	$148,100	$196,261	$190,885	$210,413
Investment income	13,599	14,686	10,952	11,280
Net income	38,700	30,823	43,149	33,688
Income attributable to Common Shareholders	38,700	30,823	39,296	33,646
Basic EPS	0.65	0.52	0.65	0.57
Diluted EPS	0.64	0.51	0.65	0.56

26. Quarterly Financial Data (Unaudited) – (continued)

	2009			
	March 31,	June 30,	September 30,	December 31,
Earned premium	$132,423	$136,803	$145,292	$159,364
Investment income	13,589	13,582	14,079	13,215
Net income	24,162	26,771	24,221	28,069
Basic EPS	0.40	0.45	0.41	0.47
Diluted EPS	0.40	0.45	0.40	0.47

During the three months ended March 31, 2010 and December 31, 2010, the Company recorded a retrospective gain of $10,450 and $1,263, respectively, related to an acquisition gain on ACAC for the three months ended March 31, 2010 and related to a gain on the purchase of life settlement contracts in the three months ended September 30, 2010. The impact of the retrospective gain on net income and earnings per share was $6,792 and $0.11 for the three months ended March 31, 2010. The impact of the retrospective gain on net income and income attributable to common shareholders was $821 and $410, respectively.

During the three months ended September 30, 2011, the Company in conjunction with the completion of its purchase price accounting related to the Majestic transaction recorded a retrospective gain of $3,185. The impact of the retrospective gain on net income and earnings per share was $2,070 and $0.03 for the three months ended September 30, 2011.

27. Subsequent Event

On January 13, 2012, the initial purchasers of the Company's convertible senior notes (the ''Notes'') exercised their $25,000 overallotment option on the previously completed offering of Notes (See Note 11. ''Debt''). On January 19, 2012, the Company closed the sale of this overallotment, bringing the aggregate amount of Notes issued to $200,000.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
AmTrust Financial Services, Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of AmTrust Financial Services, Inc. as of December 31, 2012 and 2011 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmTrust Financial Services, Inc. at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AmTrust Financial Services, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
February 28, 2013

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Par Value per Share)

	December 31, 2012	December 31, 2011
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at market value (amortized cost $1,947,644; $1,382,863)	$ 2,065,226	$ 1,394,243
Equity securities, available-for-sale, at market value (cost $20,943; $34,041)	20,465	35,600
Short-term investments	10,282	128,565
Equity investment in unconsolidated subsidiaries – related parties	96,153	83,691
Other investments	11,144	14,588
Total investments	2,203,270	1,656,687
Cash and cash equivalents	414,370	406,847
Restricted cash and cash equivalents	78,762	23,104
Accrued interest and dividends	18,536	12,644
Premiums receivable, net	1,251,262	932,992
Reinsurance recoverable (related party $789,519; $597,525)	1,318,395	1,098,569
Prepaid reinsurance premium (related party $547,128; $429,124)	754,844	584,871
Prepaid expenses and other assets (recorded at fair value $193,927; $131,387)	421,163	288,450
Federal income tax receivable	16,609	13,024
Deferred policy acquisition costs	349,126	280,991
Property and equipment, net	75,933	61,553
Goodwill	229,780	175,924
Intangible assets	285,187	196,862
	$ 7,417,237	$ 5,732,518
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss expense reserves	$ 2,426,400	$ 1,879,175
Unearned premiums	1,773,593	1,366,170
Ceded reinsurance premiums payable (related party $333,962; $222,408)	528,322	337,508
Reinsurance payable on paid losses	13,410	14,731
Funds held under reinsurance treaties	33,946	49,249
Note payable on collateral loan – related party	167,975	167,975
Securities sold but not yet purchased, at market	56,711	55,942
Securities sold under agreements to repurchase, at contract value	234,911	191,718
Accrued expenses and other current liabilities (recorded at fair value $11,750; $12,022)	406,447	311,793
Deferred income taxes	225,484	118,396
Debt	301,973	279,600
Total liabilities	6,169,172	4,772,257
Commitments and contingencies		
Redeemable non-controlling interest	600	600
Stockholders' equity:		
Common stock, $.01 par value; 100,000 shares authorized, 91,216 and 84,906 issued in 2012 and 2011, respectively; 67,192 and 60,106 outstanding in 2012 and 2011, respectively	912	849
Preferred stock, $.01 par value; 10,000 shares authorized	—	—
Additional paid-in capital	761,105	582,321
Treasury stock at cost; 24,024 and 24,800 shares in 2012 and 2011, respectively	(293,791)	(300,365)
Accumulated other comprehensive income (loss)	64,231	(9,999)
Retained earnings	611,664	617,757
Total AmTrust Financial Services, Inc. equity	1,144,121	890,563
Non-controlling interest	103,344	69,098
Total stockholders' equity	1,247,465	959,661
	$ 7,417,237	$ 5,732,518

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)

	Years Ended December 31,		
	2012	2011	2010
Revenues:			
Premium income:			
Net written premium	$ 1,648,037	$ 1,276,597	$ 827,226
Change in unearned premium	(229,185)	(239,736)	(81,567)
Net earned premium	1,418,852	1,036,861	745,659
Ceding commission – primarily related party	196,982	153,953	138,261
Service and fee income (related parties – $29,041, $16,700, $12,322)	172,174	108,660	62,067
Net investment income	68,167	55,515	50,517
Net realized gain on investments	8,981	2,768	5,953
Total revenues	1,865,156	1,357,757	1,002,457
Expenses:			
Loss and loss adjustment expense	922,675	678,333	471,481
Acquisition costs and other underwriting expenses	543,713	398,404	302,809
Other	161,320	86,611	56,403
Total expenses	1,627,708	1,163,348	830,693
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	237,448	194,409	171,764
Other income (expenses):			
Interest expense	(28,508)	(16,079)	(12,902)
Gain on investment in life settlement contracts net of profit commission	13,822	46,892	11,855
Foreign currency gain (loss)	(242)	(2,418)	684
Acquisition gain on purchase	—	5,850	—
Total other income (expenses)	(14,928)	34,245	(363)
Income before income taxes and equity in earnings of unconsolidated subsidiaries	222,520	228,654	171,401
Provision for income taxes	46,955	42,372	47,053
Income before equity in earnings of unconsolidated subsidiaries	175,565	186,282	124,348
Equity in earnings of unconsolidated subsidiaries – related party	9,295	4,882	23,226
Net income	184,860	191,164	147,574
Net income attributable to non-controlling interests of subsidiaries	(6,873)	(20,730)	(5,109)
Net income attributable to AmTrust Financial Services, Inc.	$ 177,987	$ 170,434	$ 142,465
Earnings per common share:			
Basic earnings per share	$ 2.67	$ 2.58	$ 2.17
Diluted earnings per share	$ 2.57	$ 2.52	$ 2.14
Dividends declared per common share	$ 0.39	$ 0.34	$ 0.29
Weighted average common shares outstanding:			
Basic	66,499	65,915	65,532
Diluted	68,850	67,661	66,426
Net realized gain on investments:			
Total other-than-temporary impairment losses	$ (2,965)	$ (4,411)	$ (21,196)
Portion of loss recognized in other comprehensive income	—	—	—
Net impairment losses recognized in earnings	(2,965)	(4,411)	(21,196)
Other net realized gain on investments	11,946	7,179	27,149
Net realized investment gain	$ 8,981	$ 2,768	$ 5,953

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31,		
	2012	**2011**	**2010**
Net income	$ 184,860	$ 191,164	$ 147,574
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	6,730	(4,815)	(4,820)
Change in fair value of interest rate swap	(733)	(2,280)	—
Unrealized gains on securities:			
Unrealized holding gains arising during period	63,917	4,518	8,414
Reclassification adjustment for gains included in net income	4,316	(7,156)	13,160
Other comprehensive income, net of tax	$ 74,230	$ (9,733)	$ 16,754
Comprehensive income	259,090	181,431	164,328
Less: Comprehensive income attributable to non-controlling interest	6,873	20,730	5,109
Comprehensive income attributable to AmTrust Financial Services, Inc.	$ 252,217	$ 160,701	$ 159,219

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)
Years Ended December 31, 2012, 2011, 2010

	Common Stock	Preferred Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2009	842	—	$ 543,977	$ (300,889)	$ (17,020)	$ 342,482	$ 569,392
Net income	—	—	—	—	—	147,574	147,574
Foreign currency translation, net of tax	—	—	—	—	(4,820)	—	(4,820)
Unrealized holding gain on investments, net of tax	—	—	—	—	8,414	—	8,414
Reclassification adjustment for securities sold during the year, net of tax	—	—	—	—	13,160	—	13,160
Non-controlling interest in subsidiaries	—	—	—	—	—	(5,109)	(5,109)
Issuance of restricted stock	—	—	(400)	400	—	—	—
Stock option compensation	—	—	3,386	—	—	—	3,386
Exercise of stock options	2	—	1,768	—	—	—	1,770
Common stock dividend	—	—	—	—	—	(17,253)	(17,253)
Balance, December 31, 2010	844	—	548,731	(300,489)	(266)	467,694	716,514
Net income	—	—	—	—	—	191,164	191,164
Foreign currency translation, net of tax	—	—	—	—	(4,815)	—	(4,815)
Change in fair value of derivatives, net of tax	—	—	—	—	(2,280)	—	(2,280)
Unrealized holding loss on investments, net of tax	—	—	—	—	4,518	—	4,518
Reclassification adjustment for securities sold during the year, net of tax	—	—	—	—	(7,156)	—	(7,156)
Non-controlling interest in subsidiaries	—	—	—	—	—	(20,730)	(20,730)
Equity component of convertible senior notes, net of income taxes and issues costs	—	—	22,723	—	—	—	22,723
Issuance of restricted stock	—	—	(124)	124	—	—	—
Stock option compensation	—	—	5,571	—	—	—	5,571
Exercise of stock options, other	5	—	5,420	—	—	—	5,425
Common stock dividend	—	—	—	—	—	(20,371)	(20,371)
Balance, December 31, 2011	849	—	582,321	(300,365)	(9,999)	617,757	890,563
Net income	—	—	—	—	—	184,860	184,860
Foreign currency translation, net of tax	—	—	—	—	6,730	—	6,730
Change in fair value of derivative, net of tax	—	—	—	—	(733)	—	(733)
Unrealized holding gain on investments, net of tax	—	—	—	—	63,917	—	63,917
Reclassification adjustment for securities sold during the year, net of tax	—	—	—	—	4,316	—	4,316
Non-controlling interest in subsidiaries	—	—	—	—	—	(6,873)	(6,873)
Acquisition of non-controlling interest in subsidiary	—	—	6,900	—	—	—	6,900
Equity component of convertible senior notes, net of income tax and issue costs	—	—	3,306	—	—	—	3,306
Issuance of restricted stock	—	—	(2,378)	2,378	—	—	—
Stock option compensation	—	—	7,172	—	—	—	7,172
Exercise of stock options, other	2	—	4,675	4,196	—	—	8,873
Share dividend	61	—	159,109	—	—	(159,170)	—
Common stock dividend	—	—	—	—	—	(24,910)	(24,910)
Balance, December 31, 2012	912	—	$ 761,105	$ (293,791)	$ 64,231	$ 611,664	$ 1,144,121

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)
Years Ended December 31, 2012, 2011, 2010

Non-controlling interest in equity of consolidated subsidiaries:	
Balance, December 31, 2009	$ —
Capital contributions to subsidiaries	17,925
Income attributable to non-controlling interests	5,109
Balance, December 31, 2010	$ 23,034
Capital contributions to subsidiaries	25,334
Income attributable to non-controlling interests	20,730
Balance, December 31, 2011	$ 69,098
Capital contribution to subsidiaries	34,273
Acquisition of non-controlling interest in subsidiary	(6,900)
Income attributable to non-controlling interests	6,873
Balance, December 31, 2012	$ 103,344

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	$ 184,860	$ 191,164	$ 147,574
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	44,991	50,000	18,429
Equity (earnings) losses and gain on investment in unconsolidated subsidiaries	(9,295)	(4,882)	(23,226)
Gain on investment in life settlement contracts	(13,822)	(46,892)	(11,855)
Acquisition gain on purchase	—	(5,850)	—
Realized (gain) loss on marketable securities	(11,946)	(7,179)	(27,149)
Non-cash write-down of marketable securities	2,965	4,411	21,196
Discount on notes payable	2,936	462	772
Stock based compensation	7,172	5,571	3,386
Bad debt expense	11,348	7,287	6,037
Foreign currency (gain) loss	242	2,418	(684)
Changes in assets – (increase) decrease:			
Premiums and notes receivable	(329,618)	(186,721)	(208,677)
Reinsurance recoverable	(219,826)	(174,988)	(132,111)
Deferred policy acquisition costs, net	(68,135)	(56,320)	(44,492)
Prepaid reinsurance premiums	(167,747)	(99,911)	(74,407)
Prepaid expenses and other assets	(73,065)	(40,229)	(48,210)
Changes in liabilities – increase (decrease):			
Reinsurance premium payable	190,814	71,194	132,238
Loss and loss expense reserves	547,225	283,978	171,593
Unearned premiums	380,738	315,208	153,186
Funds held under reinsurance treaties	(15,303)	(5,683)	2,527
Accrued expenses and other current liabilities	67,350	44,071	(63,402)
Deferred tax asset (liability)	(4,334)	(52,551)	3,626
Net cash provided by operating activities	527,550	294,558	26,351
Cash flows from investing activities:			
Purchases of available for sale fixed maturities	(1,462,519)	(2,065,393)	(3,711,080)
Purchases of equity securities	(30,468)	(37,410)	(28,321)
Purchases of other investments	(1,884)	(611)	(5,284)
Sales of available for sale fixed maturities	905,697	2,122,923	3,573,660
Sales of equity securities	47,491	17,634	65,531
Sales of other investments	5,717	6,776	200
Net sales (purchases) of short term investments	118,283	(96,428)	(872)
Acquisition of and capitalized premiums for life settlement contracts	(51,031)	(53,363)	(14,574)
Receipt of life settlement contract proceeds	10,074	10,530	—
Acquisition of captive insurance entities, net of cash obtained	15,473	43,950	6,929
Acquisition of subsidiaries, net of cash obtained	(63,855)	—	(19,902)
Acquisition of intangible assets	—	(30,388)	—
Loss portfolio transfer, net of cash obtained	—	28,969	—

See accompanying notes to consolidated financial statements.

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(In Thousands)

Investment in ACAC	—	—	(53,055)
Increase in restricted cash and cash equivalents	(55,658)	(5,974)	(8,180)
Purchase of property and equipment	(27,388)	(38,601)	(14,722)
Net cash (used in) provided by investing activities	(590,068)	(97,386)	(209,670)
Cash flows from financing activities:			
Repurchase agreements, net	43,193	(155,899)	174,843
Revolving credit facility borrowings	—	123,200	—
Revolving credit facility payments	—	(123,200)	—
Convertible senior notes proceeds	25,000	175,000	—
Secured loan agreement borrowings	—	10,800	—
Secured loan agreements payments	(1,021)	(782)	—
Promissory note borrowings	13,000	—	—
Promissory note payment	(12,500)	(7,500)	(7,500)
Term loan payment	—	(6,667)	(13,333)
Financing fees	(2,180)	(6,644)	—
Capital contribution to subsidiaries	22,607	25,334	11,025
Stock option exercise and other	8,873	5,425	1,770
Dividends distributed in common stock	(30,201)	(19,712)	(16,647)
Net cash provided by financing activities	66,771	19,355	150,158
Effect of exchange rate changes on cash	3,270	(2,605)	1,226
Net increase (decrease) in cash and cash equivalents	7,523	213,922	(31,935)
Cash and cash equivalents, beginning year	406,847	192,925	224,860
Cash and cash equivalents, end of year	$ 414,370	$ 406,847	$ 192,925
Supplemental Cash Flow Information			
Interest	$ 20,435	$ 12,931	$ 13,405
Income tax payments	8,414	14,158	33,480

See accompanying notes to consolidated financial statements.

1. Nature of Operations

AmTrust Financial Services, Inc. (the "Company") is an insurance holding company formed under the laws of Delaware. Through its wholly-owned subsidiaries, the Company provides specialty property and casualty insurance focusing on workers' compensation and commercial package coverage for small business, specialty risk and extended warranty coverage, and property and casualty coverage for middle market business. The Company also provides reinsurance, primarily on personal and commercial automotive business.

The Company transacts business through eleven insurance company subsidiaries: Technology Insurance Company, Inc. ("TIC"), Rochdale Insurance Company ("RIC"), Wesco Insurance Company ("WIC"), Associated Industries Insurance Company, Inc. ("AIIC"), Milwaukee Casualty Insurance Company ("MCIC"), Security National Insurance Company ("SNIC"), AmTrust Insurance Company of Kansas, Inc. ("AICK") and AmTrust Lloyd's Insurance Company of Texas ("ALIC"), which are domiciled in New Hampshire, New York, Delaware, Florida, Wisconsin, Delaware, Kansas and Texas, respectively; and AmTrust International Insurance Ltd. ("AII"), AmTrust International Underwriters Limited ("AIU") and AmTrust Europe, Ltd. ("AEL"), which are domiciled in Bermuda, Ireland and England, respectively.

2. Significant Accounting Policies

Basis of Reporting — The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries. The Company uses the equity method of accounting for its investment in American Capital Acquisition Corporation ("ACAC") in which it owns a 21.25% ownership interest. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Premiums — Insurance premiums, except for certain specialty risk and extended warranty programs, are recognized as earned on the straight-line basis over the contract period. Insurance premiums on specialty risk and extended warranty programs are earned based on an estimated program coverage period. These estimates are based on the expected distribution of coverage periods by contract at inception, because a single contract may contain multiple coverage period options, these estimates are revised based on the actual coverage period selected by the insured. Unearned premiums represent the portion of premiums written which is applicable to the unexpired term of the contract or policy in force. Premium adjustments on contracts and audit premiums are based on estimates made over the contract period. Premiums earned but not yet billed to insureds are estimated and accrued, net of related costs. These estimates are subject to the effects of trends in payroll audit adjustments. Although considerable variability is inherent in such estimates, management believes that the accrual for earned but unbilled premiums is reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The Company historically has used a percentage of premium for establishing its allowance for doubtful accounts. The Company reviews its bad debt write-offs at least annually and adjusts its premium percentage as required. Allowance for doubtful accounts were approximately $14,989 and $11,682 at December 31, 2012 and 2011, respectively.

Ceding Commission Revenue — Commissions on reinsurance premiums ceded are earned in a manner consistent with the recognition of the direct acquisition costs of underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured. Certain reinsurance agreements contain provisions whereby the ceding commission rates vary based on the loss experience under the agreements. The Company records ceding commission revenue based on its current estimate of subject losses. The Company records adjustments to the ceding commission revenue in the period that changes in the estimated losses are determined.

Loss and Loss Adjustment Expenses — Loss and loss adjustment expenses ("LAE") represent the estimated ultimate net costs of all reported and unreported losses incurred through December 31, 2012. The reserves for unpaid losses and LAE are estimated using individual case-basis valuations and statistical analyses and are not discounted. Although considerable variability is inherent in the estimates of reserves for losses and LAE, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

Investments — The Company accounts for its investments in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 320 *Investments — Debt and Equity Securities*, which requires that fixed-maturity and equity securities that have readily determined fair values be segregated into categories based upon the Company's intention for those securities. In accordance with ASC 320, the Company has classified its fixed-maturities and equity securities as available-for-sale. The Company may sell its available-for-sale securities in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors. Available for sale fixed-maturity securities and equity securities are reported at their estimated fair values based on quoted market prices or a recognized pricing service, with unrealized gains and losses, net of tax effects, reported as a separate component of comprehensive income in stockholders' equity. Realized gains and losses are determined on the specific identification method.

Quarterly, the Company's Investment Committee ("Committee") evaluates each security that has an unrealized loss as of the end of the subject reporting period for other-than-temporary-impairment ("OTTI"). The Company generally considers an investment to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1 billion and in excess of 25% of cost if the issuer has a market capitalization of $1 billion billion or more) for over 24 months. In addition, the Committee uses a set of quantitative and qualitative criteria to review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The criteria the Committee primarily considers include:

- the current fair value compared to amortized cost;
- the length of time the security's fair value has been below its amortized cost;
- specific credit issues related to the issuer such as changes in credit rating, reduction or elimination of dividends or non-payment of scheduled interest payments;
- whether management intends to sell the security and, if not, whether it is not more than likely than not that the Company will be required to sell the security before recovery of its amortized cost basis;
- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings;
- the occurrence of a discrete credit event resulting in the issuer defaulting on material outstanding obligation or the issuer seeking protection under bankruptcy laws; and
- other items, including company management, media exposure, sponsors, marketing and advertising agreements, debt restructurings, regulatory changes, acquisitions and dispositions, pending litigation, distribution agreements and general industry trends.

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. We write down investments immediately that we consider to be impaired based on the above criteria collectively.

Based on guidance in ASC 320-10-65, in the event of the decline in fair value of a debt security, a holder of that security that does not intend to sell the debt security and for whom it is not more than likely than not that such holder will be required to sell the debt security before recovery of its amortized cost basis, is required to separate the decline in fair value into (a) the amount representing the credit loss and (b) the amount related to other factors. The amount of total decline in fair value related to the credit loss shall be recognized in earnings as an OTTI with the amount related to other factors recognized in accumulated other comprehensive loss net loss, net of tax. OTTI credit losses result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process, and different judgments and assumptions could affect the timing of the loss realization.

The Company has the following types of investments:

(a) Short-term investments — Short term investments are carried at cost, which approximates fair value, and include investments with maturities between 91 days and less than 1 year at date of acquisition. As of December 31, 2012 and 2011, short term investments consisted primarily of money market investments.

(b) Fixed maturities and equity securities — Fixed maturities and equity securities (common stocks, mutual funds and non-redeemable preferred stock) are classified as available-for-sale and carried at fair value. Unrealized gains or losses on available-for-sale securities are reported as a component of accumulated other comprehensive income.

(c) Mortgage and asset backed securities — For mortgage and asset backed securities, the Company recognizes income using the retrospective adjustment method based on prepayments and the estimated economic life of the securities. The effective yield reflects actual payments to date plus anticipated future payments.

(d) Limited partnerships — The Company uses the equity method of accounting for investments in limited partnerships in which its ownership interest of the limited partnership enables the Company to influence the operating or financial decisions of the investee company, but the Company's interest in the limited partnership does not require consolidation. The Company's proportionate share of equity in net income of these unconsolidated affiliates is reported in net investment income.

(e) Derivatives and hedging activities — The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio. Derivatives are financial arrangements among two or more parties with returns linked to an underlying equity, debt, commodity, asset, liability, foreign exchange rate or other index. Unless subject to a scope exclusion, the Company carries all derivatives on the consolidated balance sheet at fair value. For derivatives that do not qualify for hedge accounting, the changes in fair value of the derivative are presented as a component of operating income. The Company primarily utilizes interest rate swaps, which are valued in terms of the contract between the Company and the issuer of the swaps, are based on the difference between the stated floating rate of the underlying indebtedness, and a predetermined fixed rate for such indebtedness with the result that the indebtedness carries a net fixed interest rate.

(f) Securities sold under agreements to repurchase, at contract value — Securities sold under agreements to repurchase are accounted for as collateralized borrowing transactions and are recorded at their contracted repurchase amounts, plus accrued interest. The Company minimizes the credit risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring exposure and collateral value and generally requiring additional collateral to be deposited with the Company when necessary.

Net investment income consists primarily of interest and dividends less expenses. Interest on fixed maturities, adjusted for any amortization of premium or discount, is recorded as income when earned. Investment expenses are accrued as incurred. Realized investment gains or losses are computed using the specific costs of securities sold, and, if applicable, include write-downs on investments having other-than-temporary decline in value.

Fair Value of Financial Instruments — The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 820 *Fair Value Measurements and Disclosures*. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. Additionally, valuation of fixed maturity investments is more subjective when markets are less liquid due to lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction could occur. Fair values of other financial instruments approximate their carrying values.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in the Level 1 hierarchy. The Company receives the quoted market prices from nationally recognized third-party pricing services ("pricing service"). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value. This pricing method is used, primarily, for fixed maturities. The fair value estimates provided by the pricing service are included in the Level 2 hierarchy. If the Company determines that the fair value estimate provided by the pricing service does not represent fair value or if quoted market prices and an estimate from pricing services are unavailable, the Company produces an estimate of fair value based on dealer quotations of the bid price for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, the Company will then determine if the estimate is Level 2 or Level 3 hierarchy.

Fixed Maturities. The Company utilized a pricing service to estimate fair value measurements for all of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted market prices in active markets. Since fixed maturities other than U.S. treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements using relevant market data, benchmark curves, sector groupings and matrix pricing. The pricing service utilized by the Company has indicated it will produce an estimate of fair value only if there is verifiable information to produce a valuation. As the fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes, the estimates of fair value other than U.S. Treasury securities are included in Level 2 of the hierarchy. U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted prices. The Company's Level 2 investments include obligations of U.S. government agencies, municipal bonds, corporate debt securities and other mortgage backed securities.

Equity Securities. For public common and preferred stocks, the Company receives estimates from a pricing service that are based on observable market transactions and includes these estimates in Level 1 hierarchy.

Other Investments. The Company has approximately 0.4% of its investment portfolio, in limited partnerships or hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy. The Company has determined that its investments in Level 3 securities are not material to its financial position or results of operations.

Derivatives. The Company estimates fair value using information provided by a third party pricing service for interest rate swaps and classifies derivatives as Level 2 hierarchy.

Life Settlements — When the Company becomes the owner of a life insurance policy either by direct purchase or following a default on a premium finance loan, the life insurance premium for such policy is accounted for as an investment in life settlements. Investments in life settlements are accounted for in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these investments using the fair value method. Fair value of the investment in policies is determined using unobservable Level 3 inputs and is calculated by performing a net present value calculation of the face amount of the life policies less premiums for the total portfolio. The unobservable Level 3 inputs use new or updated information that affects our assumptions about remaining life expectancy, credit worthiness of the policy issuer, funds needed to maintain the asset until maturity, and discount rates.

Premium Finance Loans — The Company owns certain premium finance loans, in association with the acquisition of life settlement contracts. The Company records the premium finance loans initially at cost. These loans are collateralized by underlying life insurance policies and the Company is obligated to pay premiums on these policies. Interest income is not accrued on loans where management has determined that the borrowers may be unable to meet contractual obligations. Cash receipts on these loans (if any) are generally applied to the principal balance until the remaining balance is considered collectible, at which time interest income may be recognized when received. Upon default of a loan, the Company has the option to acquire the underlying collateral, if the Company believes it has the required economic value.

Warranty Fee Revenue — The Company promotes and markets extended service plans ("ESP") to consumers through retailers and certain other marketing organizations usually with terms of coverage ranging from one to three years, commencing at the expiration of the manufacturers' warranty, if applicable. The Company generally insures the obligations under ESPs through contractual liability insurance issued by one of its insurance company subsidiaries. Under the terms of service agreements with various retailers, the Company provides for marketing and administrative services related to ESP. These agreements are generally for one-year terms and can be cancelled by either party with thirty days advance notice. The Company recognizes revenue related to promotion, marketing and administration services at the time of the sale of ESP. However, the Company defers a portion of service revenue based upon an estimate of administrative services to be provided in future periods.

Deferred Policy Acquisition Costs — The Company defers commission expenses, premium taxes and assessments as well as underwriting and safety costs that vary with and are primarily related to the successful acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. The Company may realize deferred policy acquisition costs only if the ratio of loss and loss adjustment expense reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%,

the Company could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve. The Company considers anticipated investment income in determining whether a premium deficiency relating to short duration contracts exists. The change in net deferred acquisition costs was $68,135, $56,320 and $44,492 for the years ended December 31, 2012, 2011 and 2010, respectively. The amortization for deferred acquisition costs was $181,737, $161,392 and $102,085 in 2012, 2011 and 2010, respectively.

Reinsurance — Reinsurance premiums, losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums earned and losses incurred ceded to other companies have been recorded as a reduction of premium revenue and losses and LAE. Commissions allowed by reinsurers on business ceded have been recorded as ceding commission revenue. Reinsurance recoverables are reported based on the portion of reserves and paid losses and LAE that are ceded to other companies. The Company remains liable for all loss payments, notwithstanding the failure to collect from the reinsurer.

Assessments — Insurance related assessments are accrued in the period in which they have been incurred. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. The Company is subject to a variety of assessments, such as assessments by state guaranty funds and workers' compensation second injury funds. State guaranty funds assessments are used by state insurance regulators to cover losses of policyholders of insolvent insurance companies and for the operating expenses of such agencies. The Company uses estimated assessment rates in determining the appropriate assessment expense and accrual. The Company uses estimates derived from state regulators and/or National Association of Insurance Commissioners ("NAIC") Tax and Assessments Guidelines. Assessment expense for the years ended December 31, 2012, 2011 and 2010 was approximately $39,546, $8,504 and $9,220, respectively.

Property and Equipment — Property and equipment are recorded at cost. Maintenance and repairs are charged to operations as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, as follows:

Building	40 years
Equipment	5 to 7 years
Computer equipment and software	3 to 20 years (primarily three years)
Leasehold improvements	Lesser of lease term or 15 years

The Company accounts for its internal use software under ASC 350 *Intangibles — Goodwill and Other*. Accordingly, the Company capitalizes costs of computer software developed or obtained for internal use that is specifically identifiable, has determinable lives and relates to future use.

Business Combinations - The Company accounts for business combinations under the acquisition method of accounting, which requires the Company to record assets acquired, liabilities assumed and any non-controlling interest in the acquiree at their respective fair values as of the acquisition date in the Company's consolidated financial statements. The Company records contingent consideration at fair value based on the terms of the purchase agreement with subsequent changes in fair value recorded through earnings. The determination of fair value may require management to make significant estimates and assumptions. The purchase price is the fair value of the total consideration conveyed to the seller and the Company records the excess of the purchase price over the fair value of the acquired net assets, where applicable, as goodwill. The Company assigns fair values to intangible assets based on valuation techniques including the income and market approaches. The Company expenses costs associated with the acquisition of a business in the period incurred. The Company includes the results of operations of an acquired business in its consolidated financial statements from the date of the acquisition.

Goodwill and Intangible Assets — The Company accounts for goodwill and intangible assets in accordance with ASC 350 *Intangibles — Goodwill and Other.* Upon the completion of an acquisition, the Company completes purchase price accounting in accordance with ASC 805, *Business Combinations*, which requires an acquirer to assign values to the acquired assets and liabilities based on their fair value. In the event that a purchase price paid is in excess of the net assets acquired, any unidentified excess is deemed to be goodwill. Goodwill is not amortized. Additionally as a result of an acquisition, the Company may obtain identifiable intangible assets. Indefinite lived intangible assets are not amortized. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statement of operations.

Income Taxes — The Company joins its domestic subsidiaries and certain non-domestic subsidiaries in the filing of a consolidated federal income tax return and is party to federal income tax allocation agreements. Under the tax allocation agreements, the Company pays to or receives from its subsidiaries the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return.

Deferred income taxes reflect the impact of "temporary differences" between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The deferred tax asset primarily consists of book versus tax differences for premiums earned, loss and loss adjustment expense reserve discounting, policy acquisition costs, earned but unbilled premiums, and unrealized holding gains and losses on marketable equity securities. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income, primarily unrealized investment gains and losses and foreign currency translation gains and losses, are recorded directly to other comprehensive income. Additionally, the use of deferred tax liabilities related to equalization reserves are netted against related amortization expense and recorded as a decrease to other underwriting expense. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense.

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that we will generate future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. If necessary, the Company establishes a valuation allowance to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

The Company recognizes tax benefits only for tax positions that are more likely than not to be sustained upon examination by taxing authorities. The Company's policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. Tax years 2008 through 2012 are still subject to examination. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

Foreign Currency — The Company assigns functional currencies to its foreign operations, which are generally the currencies of the local operating environment. Foreign currency amounts are remeasured to the functional currency and the resulting foreign exchange gains and losses are reflected in earnings. Functional currency amounts from the Company's foreign operations are then translated into U.S. dollars. The change in unrealized foreign currency translation gain or loss during the year, net of tax, is a component of accumulated other changes in equity from nonowner sources. The foreign currency remeasurement and translation are calculated using current exchange rates for the items reported on the balance sheets and average exchange rates for items recorded in earnings.

Stock Compensation Expense — The Company follows ASC 720 *Compensation — Stock Compensation* and recognizes compensation expense for its share-based payments based on the fair value of the awards. Share-based payments include restricted stock, restricted stock units, performance share units and stock option grants under the Company's 2005 Equity Incentive Plan and 2010 Omnibus Incentive Plan. ASC 720 requires share-based compensation expense recognized to be based on estimated grant date fair value.

Earnings Per Share — The Company accounts for earnings per share under the two-class method, as described in ASC 260, *Earnings Per Share*. Under the two-class method, earnings for the period are allocated between common stockholders and other stockholders based on their respective rights to receive dividends. Restricted stock awards granted to employees under the Company's 2005 Equity Incentive Plan and 2010 Omnibus Incentive Plan are considered participating securities as they receive dividends on this stock. Additionally, the Company follows the treasury stock method related to its contingently convertible debt, as the Company has the ability to settle the conversion premium in either cash or stock. The contingently convertible shares were anti-dilutive for the Company's earnings per share calculations.

Treasury Stock — The Company accounts for the treasury stock at the repurchase price as a reduction to stockholders' equity.

Concentration and Credit Risk — Financial instruments that potentially subject the Company to concentration of credit risk are primarily cash and cash equivalents, investments and premium receivable. Investments are diversified through the types of investments, industry sectors and geographic regions. The Company limits the amount of credit exposure with any one financial

institution and believes that no significant concentration of credit risk exists with respect to cash and investments. At December 31, 2012 and 2011, the outstanding premium receivable balance is generally diversified due to the number of entities composing the Company's customer base. To reduce credit risk, the Company performs ongoing evaluations of its customers' financial condition. The Company also has receivables from its reinsurers. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company periodically evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. It is the policy of management to review all outstanding receivables at period end as well as the bad debt write-offs experienced in the past and establish an allowance for doubtful accounts, if deemed necessary.

Non-controlling Interest — The ownership interest in consolidated subsidiaries of non-controlling interests is reflected as non-controlling interest. The Company's consolidation principles would also consolidate any entity in which the Company would be deemed a primary beneficiary. Non-controlling interest expense represents such non-controlling interests' in the earnings of that entity. All significant transactions and account balances between the Company and its subsidiaries were eliminated during consolidation.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions, which include the reserves for losses and loss adjustment expenses, are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with the recognition and amortization of deferred policy acquisition costs, the determination of fair value of invested assets and related impairments, and the determination of goodwill and intangible impairments require considerable judgment by management. On an on-going basis, management reevaluates its assumptions and the methods of calculating its estimates. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

Reclassifications — Certain accounts in the prior years' consolidated financial statements have been reclassified for comparative purposes to conform to the current year's presentation. This did not have any impact on the net income of the Company. A summary of the major items include:

The Company paid a 10% stock dividend during the three months ended September 30, 2012. As such the weighted average number of shares used for basic and diluted earnings per share have been adjusted in prior periods. The impact on basic earnings per share was a decrease of $0.27 and $0.22 in 2011 and 2010, respectively and a decrease of diluted earnings per share of $0.25 and $0.22 for 2011 and 2010, respectively.

The Company and American Capital Acquisition Corporation ("ACAC") currently each have a 50% ownership interest in Tiger Capital LLC ("Tiger") and AMT Capital Alpha, LLC ("AMT Alpha"). The Company also has a 21.25% ownership share of ACAC. As a result, the Company ultimately receives 60.625% of the income and losses related to Tiger and AMT Alpha and therefore consolidates Tiger and AMT Alpha. Prior to January 1, 2012, the Company reported Tiger's and AMT Alpha's income and losses attributable to its 10.625% indirect ownership as a component of Equity in Earnings of Unconsolidated Subsidiaries. This amount was offset by reporting an equal amount as a component of Non-controlling interest. Effective January 1, 2012, the Company presents the impact of the 10.625% indirect ownership of Tiger and AMT Alpha on a net basis and excludes this amount from both Equity in Earnings of Unconsolidated Subsidiaries and Non-controlling Interest. All prior periods presented have been reclassed to conform to the current presentation. There was no impact on prior period Net Income Attributable to AmTrust Financial Services, Inc. The Company's equity investment in ACAC and non-controlling interest were reduced by $3,807 and $818 as of December 31, 2011 and 2010, respectively. Additionally, the non-controlling interest related to income on life settlement contracts is now presented on a pre-tax basis and the provision for income taxes has been reduced by an equivalent amount.

The Company acquired Builders & Tradesmen's Insurance Services, Inc. ("BTIS") in December of 2011. The Company completed its acquisition accounting during the fourth quarter of 2012. As such, the goodwill and intangible asset values have been retroactively adjusted to December 31, 2011. The related amortization expense for 2011 was insignificant. See Note 5 "Acquisitions" for a description of the transaction.

Recent Accounting Literature

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02, *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 supersedes and replaces the presentation requirements for the reclassifications out of accumulated other comprehensive income. None of the other requirements of the previous ASUs are affected by ASU 2013-02. ASU 2013-02 is effective on a prospective basis for interim and annual periods beginning after December 15, 2012. The Company is currently evaluating the impact of adopting this new accounting standard on the presentation of our consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles - Goodwill and Other (Topic 350) Testing Indefinite Lived Intangible Assets for Impairment*. This updated guidance regarding the impairment test applicable to indefinite-lived intangible assets is similar to the impairment guidance applicable to goodwill. Under the updated guidance, an entity may assess qualitative factors (such as changes in management, strategy, technology or customers) that may impact the fair value of the indefinite-lived intangible asset and lead to the determination that it is more likely than not that the fair value of the asset is less than its carrying value. If an entity determines that it is more likely than not that the fair value of the intangible asset is less than its carrying value, an impairment test must be performed. The impairment test requires an entity to calculate the estimated fair value of the indefinite-lived intangible asset. If the carrying value of the indefinite-lived intangible asset exceeds its estimated fair value, an impairment loss is recognized in an amount equal to the excess. The updated guidance is effective for the period ending March 31, 2013 with early adoption permitted. The adoption of this guidance is not expected to have any effect on the Company's results of operations, financial position or liquidity.

In June 2011, the FASB issued ASU No. 2011-05 *Comprehensive Income (Topic 220)*. This update requires that all non-owner charges in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-step approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The updated guidance was effective for fiscal years and interim periods beginning on or after December 15, 2011 and was to be applied on a retrospective basis to the beginning of the annual period of adoption. The new standard does not change the items that must be reported in other comprehensive income and was effective for fiscal years and interim periods within those years that begin after December 15, 2011. The Company adopted this standard on January 1, 2012. The adoption of the new standard did not have a material impact on the Company's results of operations, financial position or liquidity. Additionally, in December 2011, the FASB issued a new standard which indefinitely deferred certain provisions of ASU No. 2011-05 *Comprehensive Income (Topic 220)* that revised the manner in which companies present comprehensive income in financial statements. One of the ASU provisions required companies to present, by component, reclassification adjustments out of accumulated other comprehensive income in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This requirement was deferred until the FASB issued of ASU 2013-02 as described above.

In September 2011, the FASB issued ASU No. 2011-08 *Intangibles-Goodwill and Other (Topic 350)*. The updated guidance is intended to reduce complexity and costs by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment, using factors such as changes in management, key personnel, business strategy, technology or customers, to determine whether it should calculate the fair value of a reporting unit. Previous accounting literature required an entity to test goodwill for impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, then the second step of the test had to be performed to measure the amount of the impairment loss, if any. In the second step, the implied fair value of the reporting unit's goodwill was determined in the same manner as goodwill is measured in a business combination (by measuring the fair value of the reporting unit's assets, liabilities and unrecognized intangible assets and determining the remaining amount ascribed to goodwill) and comparing the amount of the implied goodwill to the carrying amount of the goodwill. Under the updated guidance, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that is more likely than not that its fair value is less than its carrying amount. This update was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 31, 2011. The Company adopted this standard January 1, 2012 and it did not have any material impact on its results of operations, financial position or liquidity.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820)*. The ASU generally aligns the principles for fair value measurements and the related disclosure requirements under GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. The amendment was effective on a prospective basis for interim

and annual reporting periods beginning after December 15, 2011. The Company adopted this standard on January 1, 2012 and adoption of the standard did not have a material impact on the Company's consolidated financial statements.

In April 2011, the FASB amended its guidance on accounting for repurchase agreements. The amendments eliminate as a criteria for demonstrating effective control over the transferred asset whether a transferor has the ability to repurchase or redeem the financial assets. Under the amended guidance, a transferor maintains effective control over transferred financial assets (and thus accounts for the transfer as a secured borrowing) if there is an agreement that both entitles and obligates the transferor to repurchase the financial assets before maturity and if all of the following conditions previously required are met: (i) financial assets to be repurchased or redeemed are the same or substantially the same as those transferred; (ii) repurchase or redemption date before maturity at a fixed or determinable price; and (iii) the agreement is entered into contemporaneously with, or in contemplation of, the transfer. As a result, more arrangements could be accounted for as secured borrowings rather than sales. The updated guidance was effective on a prospective basis for interim and annual reporting periods beginning on or after December 15, 2011. The Company adopted this standard January 1, 2012 and it did not have a material impact on the Company's results of operations, financial position or liquidity.

In October 2010, the FASB issued ASU No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* ("ASU 2010-26"). ASU 2010-26 modifies the types of costs that may be deferred, allowing insurance companies to only defer costs directly related to a successful contract acquisition or renewal. These costs include incremental direct costs of successful contracts, the portion of employees' salaries and benefits related to time spent on acquisition activities for successful contracts and other costs incurred in the acquisition of a contract. Additional disclosure of the type of acquisition costs capitalized is also required.

The Company adopted ASU 2010-26 prospectively on January 1, 2012. For the year ended December 31, 2012, the Company recognized approximately $7,032 of expense related to such previously deferrable costs. If the Company had adopted ASU 2010-26 retrospectively, approximately $6,802 and $15,573 of acquisition costs that were deferred would have been recognized in expense for the year ended December 31, 2011 and 2010, respectively.

3. Investments

(a) Available-for-Sale Securities

The amortized cost, estimated fair value and gross unrealized appreciation and depreciation of fixed and equity securities are presented in the tables below:

(Amounts in Thousands) As of December 31, 2012	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 5,092	$ 112	$ (20)	$ 5,184
Common stock	15,851	596	(1,166)	15,281
U.S. treasury securities	62,502	3,694	(4)	66,192
U.S. government agencies	39,594	707	—	40,301
Municipal bonds	287,361	12,833	(752)	299,442
Corporate bonds:				
Finance	830,101	68,190	(4,603)	893,688
Industrial	387,980	20,914	(1,094)	407,800
Utilities	45,320	2,611	(5)	47,926
Commercial mortgage backed securities	10,065	135	—	10,200
Residential mortgage backed securities:				
Agency backed	276,895	16,373	(654)	292,614
Non-agency backed	7,826	—	(763)	7,063
	$ 1,968,587	$ 126,165	$ (9,061)	$ 2,085,691

(Amounts in Thousands) As of December 31, 2011	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred stock	$ 5,091	$ —	$ (777)	$ 4,314
Common stock	28,950	5,228	(2,892)	31,286
U.S. treasury securities	50,474	3,057	(257)	53,274
U.S. government agencies	6,268	522	—	6,790
Municipal bonds	268,240	7,290	(513)	275,017
Corporate bonds:				
Finance	534,810	13,059	(31,918)	515,951
Industrial	131,489	4,392	(2,990)	132,891
Utilities	38,434	1,790	(1,718)	38,506
Commercial mortgage backed securities	150	—	—	150
Residential mortgage backed securities:				
Agency backed	345,112	18,946	(58)	364,000
Non-agency backed	7,886	—	(222)	7,664
	$ 1,416,904	$ 54,284	$ (41,345)	$ 1,429,843

Proceeds from the sale of investments in available-for-sale securities during the years ended December 31, 2012, 2011 and 2010 were approximately $953,188, $2,140,557 and $3,639,191, respectively.

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A summary of the Company's available-for-sale fixed securities as of December 31, 2012 and 2011, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2012		December 31, 2011	
(Amounts in Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 20,786	$ 21,945	$ 10,044	$ 18,661
Due after one through five years	400,865	414,016	286,007	277,959
Due after five through ten years	966,158	1,044,510	501,490	494,290
Due after ten years	265,049	274,878	228,695	231,519
Mortgage backed securities	294,786	309,877	356,627	371,814
Total fixed maturities	$ 1,947,644	$ 2,065,226	$ 1,382,863	$ 1,394,243

(b) Investment Income

Net investment income for the years ended December 31, 2012, 2011 and 2010 was derived from the following sources:

(Amounts in Thousands)	2012	2011	2010
Fixed maturity securities	$ 67,182	$ 53,595	$ 43,789
Equity securities	127	981	702
Cash and short term investments	1,778	1,966	4,042
Interest on note receivable – related party	—	—	2,612
	69,087	56,542	51,145
Less: Investment expenses and interest expense on securities sold under agreement to repurchase	(920)	(1,027)	(628)
	$ 68,167	55,515	$ 50,517

(c) Other Than Temporary Impairment

OTTI charges of our fixed-maturities and equity securities for the years ended December 31, 2012, 2011 and 2010 are presented in the table below:

(Amounts in Thousands)	2012	2011	2010
Equity securities recognized in earnings	$ 2,965	$ 937	$ 10,656
Fixed maturity securities recognized in earnings	—	3,474	10,540
	$ 2,965	$ 4,411	$ 21,196

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The tables below summarize the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized loss position as of December 31, 2012 and 2011:

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) December 31, 2012	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$ 7,643	$ (1,138)	25	$ 1,978	$ (48)	1	$ 9,621	$ (1,186)
U.S. treasury securities	997	(4)	1	—	—	—	997	(4)
Municipal bonds	63,577	(752)	19	—	—	—	63,577	(752)
Corporate bonds:								
Finance	52,398	(899)	20	95,992	(3,704)	13	148,390	(4,603)
Industrial	82,066	(881)	28	9,105	(213)	4	91,171	(1,094)
Utilities	5,860	(5)	3	—	—	—	5,860	(5)
Residential mortgage backed securities:								
Agency backed	24,554	(654)	2	—	—	—	24,554	(654)
Non-agency backed	—	—	—	7,062	(763)	2	7,062	(763)
Total temporarily impaired	$237,095	$ (4,333)	98	$114,137	$ (4,728)	20	$351,232	$ (9,061)

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) December 31, 2011	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$ 4,211	$ (648)	7	$ 4,573	$ (3,021)	17	$ 8,784	$ (3,669)
U.S. treasury securities	7,523	(257)	4	773	—	1	8,296	(257)
Municipal bonds	43,452	(452)	10	4,098	(61)	1	47,550	(513)
Corporate bonds:								
Finance	221,950	(13,250)	81	104,461	(18,668)	17	326,411	(31,918)
Industrial	35,105	(2,125)	11	2,500	(865)	1	37,605	(2,990)
Utilities	21,483	(1,261)	9	5,766	(457)	1	27,249	(1,718)
Commercial mortgage backed securities	150	—	2	—	—	—	150	—
Residential mortgage backed securities:								
Agency backed	31,986	(58)	9	—	—	—	31,986	(58)
Non-agency backed	7,641	(216)	1	22	(6)	1	7,663	(222)
Total temporarily impaired	$373,501	$ (18,267)	134	$122,193	$ (23,078)	39	$495,694	$ (41,345)

There are 118 and 173 securities at December 31, 2012 and 2011, respectively that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company's cost basis.

(d) Realized Gains and Losses

The tables below indicate the gross realized gains and losses for the years ended December 31, 2012, 2011 and 2010.

(Amounts in Thousands) Year Ended December 31, 2012	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 10,310	$ (1,066)	$ 9,244
Equity securities	7,718	(5,016)	2,702
Write-down of equity securities	—	(2,965)	(2,965)
	$ 18,028	$ (9,047)	$ 8,981

(Amounts in Thousands) Year Ended December 31, 2011	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 7,631	$ (266)	$ 7,365
Equity securities	569	(755)	(186)
Write-down of fixed maturity securities	—	(3,474)	(3,474)
Write-down of equity securities	—	(937)	(937)
	$ 8,200	$ (5,432)	$ 2,768

(Amounts in Thousands) Year Ended December 31, 2010	Gross Gains	Gross Losses	Net Gains and Losses
Fixed maturity securities	$ 17,860	$ (4,353)	$ 13,507
Equity securities	19,656	(6,047)	13,609
Derivatives	33	—	33
Write-down of fixed maturity securities	—	(10,540)	(10,540)
Write-down of equity securities	—	(10,656)	(10,656)
	$ 37,549	$ (31,596)	$ 5,953

(e) Unrealized Gains and Losses

The net unrealized gain (loss) on available-for-sale securities were as follows:

(Amounts in Thousands) Year Ended December 31,	2012	2011	2010
Fixed maturity securities	$ 117,582	$ 11,380	$ 15,969
Equity securities	(478)	1,559	(1,165)
Total net unrealized gain (loss)	117,104	12,939	14,804
Deferred income tax benefit (expense)	(40,986)	(4,529)	(5,181)
Net unrealized gains (loss), net of deferred income tax	76,118	8,410	9,623
Increase (decrease) in net unrealized gains, net of deferred income tax	$ 67,708	$ (1,213)	$ 13,418

(f) Derivatives

The Company from time to time invests in a limited amount of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. The Company records changes in valuation on its derivative positions not designated as a hedge as a component of net realized gains and losses.

The Company records changes in valuation on its hedged positions as a component of other comprehensive income. As of December 31, 2012, the Company had two interest rate swap agreements designated as a hedge and were recorded as a liability in the amount of $4,636 and were included as a component of accrued expenses and other liabilities.

The following table presents the notional amounts by remaining maturity of the Company's Interest Rate Swaps as of December 31, 2012:

	Remaining Life of Notional Amount(1)				
(Amounts in Thousands)	**One Year**	**Two Through Five Years**	**Six Through Ten Years**	**After Ten Years**	**Total**
Interest rate swaps	$ —	$ 70,000	$ —	$ —	$ 70,000

(1) Notional amount is not representative of either market risk or credit risk and is not recorded in the consolidated balance sheet.

(g) Restricted Cash and Investments

The Company, in order to conduct business in certain states, is required to maintain letters of credit or assets on deposit to support state mandated regulatory requirements and certain third party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets held are primarily in the form of cash or certain high grade securities. The fair values of our restricted assets as of December 31, 2012 and 2011 are as follows:

(Amounts in Thousands)	**2012**	**2011**
Restricted cash	$ 78,762	$ 23,104
Restricted investments	251,082	187,227
Total restricted cash and investments	$ 329,844	$ 210,331

(h) Other

Securities sold but not yet purchased, represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value and as of December 31, 2012 and 2011 was $56,700 and $55,830 for U.S. treasury bonds, respectively, and $11 and $112 for equity securities, respectively. These transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, may exceed the amount reflected at December 31, 2012. Substantially all securities owned under these arrangements are pledged to the clearing broker to sell or repledge the securities to others subject to certain limitations.

The Company entered into repurchase agreements, which are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities, that it invests or holds in short term or fixed income securities. As of December 31, 2012, there were $234,911 principal amount outstanding at interest rates between 0.42% and 0.50%. Interest expense associated with these repurchase agreements for the year ended December 31, 2012 was $920 of which $0 was accrued as of December 31, 2012. The Company has $253,104 of collateral pledged in support of these agreements. As of December 31, 2011, there were $191,718 principal amount outstanding at interest rates between 0.4% and 0.45%. Interest expense associated with these repurchase agreements for the year ended December 31, 2011 was $1,028 of which $0 was accrued as of December 31, 2011. The Company had $210,890 of collateral pledged in support of these agreements. Interest expense related to repurchase agreements is recorded as a component of investment income. Additionally, during the year ended December 31, 2012, the Company entered into a reverse repurchase agreement in the amount of $57,000 that is included in cash and cash equivalents as of December 31, 2012. The Company retains collateral of $56,700 related to this agreement.

4. Fair Value of Financial Instruments

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of December 31, 2012 and 2011:

(Amounts in Thousands) As of December 31, 2012	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$ 66,192	$ 66,192	$ —	$ —
U.S. government securities	40,301	—	40,301	—
Municipal bonds	299,442	—	299,442	—
Corporate bonds and other bonds:				
Finance	893,688	—	893,688	—
Industrial	407,800	—	407,800	—
Utilities	47,926	—	47,926	—
Commercial mortgage backed securities	10,200	—	10,200	—
Residential mortgage backed securities:				
Agency backed	292,614	—	292,614	—
Non-agency backed	7,063	—	7,063	—
Equity securities	20,465	20,465	—	—
Short term investments	10,282	10,282	—	—
Other investments	11,144	—	—	11,144
Life settlement contracts	193,927	—	—	193,927
	$ 2,301,044	$ 96,939	$ 1,999,034	$ 205,071
Liabilities:				
Equity securities sold but not yet purchased, market	$ 11	$ 11	$ —	$ —
Fixed maturity securities sold but not yet purchased, market	56,700	56,700	—	—
Securities sold under agreements to repurchase, at contract value	234,911	—	234,911	—
Life settlement contract profit commission	11,750	—	—	11,750
Derivatives	4,636	—	4,636	—
	$ 308,008	$ 56,711	$ 239,547	$ 11,750

(Amounts in Thousands) As of December 31, 2011	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$ 53,274	$ 53,274	$ —	$ —
U.S. government securities	6,790	—	6,790	—
Municipal bonds	275,017	—	275,017	—
Corporate bonds and other bonds:				
Finance	515,951	—	515,951	—
Industrial	132,891	—	132,891	—
Utilities	38,506	—	38,506	—
Commercial mortgage backed securities	150	—	150	—
Residential mortgage backed securities:				
Agency backed	364,000	—	364,000	—
Non-agency backed	7,664	—	7,664	—
Equity securities	35,600	35,600	—	—
Short term investments	128,565	128,565	—	—
Other investments	14,588	—	—	14,588
Life settlement contracts	131,387	—	—	131,387
	$ 1,704,383	$ 217,439	$ 1,340,969	$ 145,975
Liabilities:				
Equity securities sold but not yet purchased, market	$ 112	$ 112	$ —	$ —
Fixed maturity securities sold but not yet purchased, market	55,830	55,830	—	—
Securities sold under agreements to repurchase, at contract value	191,718	—	191,718	—
Life settlement contract profit commission	12,022	—	—	12,022
Derivatives	3,508	—	—	3,508
	$ 263,190	$ 55,942	$ 191,718	$ 15,530

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The following table provides a summary of changes in fair value of the Company's Level 3 financial assets for the years ended December 31, 2012 and 2011:

(Amounts in Thousands)	Balance as of January 1, 2012	Net income (loss)	Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2012
Other investments	$ 14,588	$ (3,705)	$ 4,094	$ 1,884	$ (5,717)	$ —	$ 11,144
Life settlement contracts	131,387	56,804	—	15,810	(10,074)	—	193,927
Life settlement contract profit commission	(12,022)	272	—	—	—	—	(11,750)
Derivatives	(3,508)	—	(1,465)	—	—	4,973	—
Total	$ 130,445	$ 53,371	$ 2,629	$ 17,694	$ (15,791)	$ 4,973	$ 193,321

(Amounts in Thousands)	Balance as of January 1, 2011	Net income (loss)	Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of December 31, 2011
Other investments	$ 21,514	$ 883	$ (1,644)	$ 611	$ (6,776)	$ —	$ 14,588
Life settlement contracts	22,155	80,523	—	39,239	(10,530)	—	131,387
Life settlement contract profit commission	(4,711)	(7,311)	—	—	—	—	(12,022)
Derivatives	—	—	(3,508)	—	—	—	(3,508)
Total	$ 38,958	$ 74,095	$ (5,152)	$ 39,850	$ (17,306)	$ —	$ 130,445

The Company transferred its derivatives from Level 3 to Level 2 during the year ended December 31, 2012. The Company had no transfers between levels during 2011.

The Company uses the following methods and assumptions in estimating its fair value disclosures for financial instruments:

- *Equity and Fixed Income Investments:* Fair value disclosures for these investments are disclosed elsewhere in Note 2. "Significant Accounting Policies". The carrying values of cash, short term investments and investment income accrued approximate their fair values and are classified as Level 1 in the financial hierarchy.
- *Premiums Receivable:* The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values due to the short term nature of the asset and are classified as Level 1 in the financial hierarchy.
- *Subordinated Debentures and Debt:* The current fair value of the Company's convertible senior notes and subordinated debentures was $248,000 and $58,300 as of December 31, 2012, respectively. These financial liabilities are classified as Level 3 in the financial hierarchy. The fair value of the convertible senior notes was determined using a binomial lattice model. The fair value of the subordinated debentures was determined using the Black-Derman-Troy interest rate lattice model.
- *Other investments:* The Company has less than one percent of its investment portfolio and consists of limited partnerships and hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy. Additionally, the Company has an investment in a Lloyd's syndicate that is valued on a cost basis. The Company has determined thats its investments in these securities are not material to its financial position or results of operations.
- *Derivatives:* The Company classifies interest rate swaps as Level 2 hierarchy. The Company uses these interest rate swaps to hedge floating interest rates on its debt, thereby changing the variable rate exposure to a fixed rate exposure for interest on these obligations. The estimated fair value of the interest rate swaps, which is obtained from a third

party pricing service, is measured using discounted cash flow analysis that incorporates significant observable inputs, including the LIBOR forward curve and a measurement of volatility.

The fair value of life settlement contracts as well as life settlement profit commission is based on information available to the Company at the end of the reporting period. The Company considers the following factors in its fair value estimates: cost at date of purchase, recent purchases and sales of similar investments, financial standing of the issuer, and changes in economic conditions affecting the issuer, maintenance cost, premiums, benefits, standard actuarially developed mortality tables and industry life expectancy reports. The fair value of a life insurance policy is estimated using present value calculations based on the data specific to each individual life insurance policy. The following summarizes data utilized in estimating the fair value of the portfolio of life insurance policies for the years ended December 31, 2012 and 2011 and, as described in Note 6 "Investments in Life Settlements", only includes data for policies to which the Company assigned value at those dates:

	2012	2011
Average age of insured	79	77
Average life expectancy, months [(1)]	139	155
Average face amount per policy	$ 6,770,000	$ 6,703,000
Fair value discount rate	7.5%	7.5%
Internal rate of return [(2)]	17.7%	14.1%

(1) Standard life expectancy as adjusted for insured's specific circumstances
(2) Internal rate of return includes a risk premium which represents risk adjustments applied to the estimated present value of cash flows based on the following factors: (i) the volatility in life expectancy of insureds and the associated level of future premium payments and (ii) the projected risk of non-payment, including the financial health of the insurance carrier, the possibility of legal challenges from the insurance carrier or others and the possibility of regulatory changes that may affect payment.

These assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The fair value measurements used in estimating the present value calculation are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonable vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value amount. If the life expectancies were increased or decreased by 4 months and the discount factors were increased or decreased by 1% while all other variables are held constant, the carrying value of the investment in life insurance policies would increase or (decrease) by the unaudited amounts summarized below for the years ended December 31, 2012 and 2011:

	Change in life expectancy	
	Plus 4 Months	Minus 4 Months
Investment in life policies:		
December 31, 2012	$ (27,160)	$ 29,285
December 31, 2011	$ (18,778)	$ 20,785

	Change in discount rate	
	Plus 1%	Minus 1%
Investment in life policies:		
December 31, 2012	$ (17,591)	$ 19,926
December 31, 2011	$ (13,802)	$ 15,804

5. Acquisitions

The following acquisitions occurred during the years ended December 31, 2012 and 2011. The Company accounts for acquisitions pursuant to the acquisition method. In applying the acquisition method, the Company records the identifiable assets acquired and liabilities assumed at fair value and records the excess of the consideration paid over the value of the identified net assets acquired as goodwill. The Company assigns fair values to intangible assets based on valuation techniques including the income and market approaches.

First Nonprofit Companies, Inc.

On December 31, 2012, the Company completed the acquisition of First Nonprofit Companies, Inc. ("FNC") for approximately $55,000. FNC serves approximately 1,500 nonprofit and government entities covering approximately $5,000 of annual payroll. FNC offers unique services as well as insurance programs that are designed to allow nonprofit and government entities to economically manage their unemployment tax obligations. In accordance with FASB ASC 805-10 *Business Combinations*, the Company recorded a purchase price of approximately $55,000, which consisted primarily of goodwill and intangible assets of $28,210 and $40,500, respectively. The intangible assets consist of relationships and have a life of 18 years. The goodwill and intangibles are included as a component of the Small Commercial Business segment. The acquisition of FNC had no impact on the Company's results of operations for 2012.

AHL

During 2012 and 2011, AmTrust Holdings Luxembourg ("AHL") completed a series of acquisitions described below. AHL is a holding company that purchases Luxembourg captive insurance entities that allows the Company to obtain the benefit of the captives' capital and utilization of their existing and future loss reserves through a series of reinsurance arrangements with one of the Company's subsidiaries. AHL and the result of the Company's utilization of the captives' loss reserves are included in our Specialty Risk and Extended Warranty segment.

In December 2012, AHL acquired all the issued and outstanding stock of Inter Re S.A., a Luxembourg domiciled captive insurance company, from USG People. The purchase price of Inter Re S.A. was approximately $40,600. The Company recorded approximately $44,800 of cash, intangible assets of $8,500 and a deferred tax liability of $12,700. Inter Re S.A. subsequently changed its name to AmTrust Re Epsilon.

In December 2012, AHL acquired all the issued and outstanding stock of Socare S.A., a Luxembourg domiciled captive insurance company, from Cactus S.A. The purchase price of Socare S.A. was approximately $119,300. The Company recorded approximately $130,500 of cash, intangible assets of $26,200 and a deferred tax liability of $37,400. Socare S.A. subsequently changed its name to AmTrust Re Theta.

In December 2011, AHL acquired all the issued and outstanding stock of Reaal Reassurantie S.., a Luxembourg domiciled captive insurance company, from SNS REAAL N.V. and REAAL N.V. The purchase price of Reaal Reassurantie S.A. was approximately $71,900. The Company recorded approximately $78,700 of cash, intangible assets of $15,500 and a deferred tax liability of $22,300. Reaal Reassurantie S.A. subsequently changed its name to AmTrust Re Kappa.

In December 2011, AHL acquired all the issued and outstanding stock of Vandermoortele International Reinsurance Company SA, a Luxembourg domiciled captive insurance company, from NV Vandermoortele, Vandemoortele International Finance SA and NV Safinco. The purchase price of Vandermoortele International Reinsurance Company SA was approximately $66,000. The Company recorded approximately $71,400 of cash, intangible assets of $10,600 and a deferred tax liability of $16,000. Vandermoortele International Reinsurance Company SA subsequently changed its name to AmTrust Re Zeta.

In June 2011, AHL acquired all the issued and outstanding stock of International Crédit Mutuel Reinsurance SA ("ICM Re"), a Luxembourg domiciled captive insurance company, from Assurance du Credit Mutuel IARD SA. The purchase price of ICM Re was approximately $315,000. The Company recorded approximately $347,000 of cash, intangible assets of $55,900 and a deferred tax liability of $87,800. ICM Re subsequently changed its name to AmTrust Re Alpha.

CNH Capital's Insurance Agencies

In July 2012, the Company completed the acquisition of CNH Capital Insurance Agency Inc. and CNH Capital Canada Insurance Agency, Ltd., collectively known as "CNH Capital Insurance Agencies," from CNH Capital, the financial services business of CNH Global N.V., for approximately $34,000. The acquisition allows the Company to enhance and expand CNH Capital Insurance Agencies' offering of equipment extended service contracts and other insurance products to Case IH, Case Construction, New Holland Agriculture and New Holland Construction equipment dealers in the United States and Canada. Additionally, the Company entered into service and license agreements with CNH Capital whereby the Company will make future payments based on gross revenues of the CNH Capital Insurance Agencies. In accordance with FASB ASC 805-10, Business Combinations, the Company recorded a purchase price of $34,000, which consisted primarily of goodwill and intangible assets of approximately $21,340 and $19,400, respectively. The intangible assets consist of renewal rights and licenses and have asset lives of between 5 and 10 years. The goodwill and intangibles are included as a component of the Specialty Risk and Extended Warranty segment. As a result of this transaction, the Company recorded approximately $9,800 of fee income during the year ended December 31, 2012. Additionally, the Company recorded approximately $29,644 of written premium for the year ended December 31, 2012 related to CNH.

BTIS

In December 2011, the Company acquired the California-based BTIS, an insurance wholesaler and general agent specializing in insurance policies and bonds for small artisan contractors. The purchase agreement required the Company to make an initial payment of $5,000 on the acquisition date and pay future incentives measured primarily on the overall profitability of the business for a period of approximately 4 years. In accordance with FASB ASC 805, *Business Combinations,* the Company recorded a purchase price of approximately $47,000, which included goodwill and intangibles of approximately of $28,270 and $29,900, respectively . The intangible assets included renewal rights, distribution networks and trademarks. The trademarks were determined to have an indefinite life while the renewal rights and distribution networks were determined to have lives of 11 years and 17 years, respectively. Additionally, the Company recorded a liability for approximately $2,410 related to an unfavorable lease assumed in the transaction. BTIS's revenues are included within the Company's Small Commercial Business segment as a component of service and fee income. The Company recorded approximately $18,100 and $2,002 of fee revenue as a result of this acquisition for the years ended December 31, 2012 and 2011, respectively. Additionally, the Company recorded written premium of approximately $70,107 for the year ended December 31, 2012 related to BTIS.

Cardinal Comp

In September 2008, the Company entered into a managing general agency agreement with Cardinal Comp, LLC (“Cardinal Comp”), a workers’ compensation managing general agent for which the Company paid the agency a commission for the placement of insurance policies. The agency operated in eight states and primarily in the state of New York. In September 2011, the Company, through one of its subsidiaries, entered into a renewal rights and asset purchase agreement with Cardinal Comp and Cook Inlet Alternative Risk LLC. The purchase price was approximately $30,388. The existing managing general agency agreement entered into in 2008 was terminated as part of the new agreement and will enable the Company to reduce commissions on written premium generated from the renewal rights agreement. In accordance with FASB ASC 805-10 *Business Combinations*, the Company recorded a purchase price of $30,388, which consisted primarily of goodwill and intangible assets of $5,250 and $24,750, respectively. The intangible assets consist of distribution networks, renewal rights and a trademark and have asset lives of between 2 and 16 years. The goodwill and intangibles are included as a component of the Small Commercial Business segment. The Company recorded approximately $90,886 and $84,000 of written premium related to Cardinal Comp for the years ended December 31, 2012 and 2011, respectively.

Majestic

The Company, through certain of its subsidiaries and the Insurance Commissioner of the State of California acting solely in the capacity as the statutory conservator (the "Conservator") of Majestic Insurance Company ("Majestic"), entered into a Rehabilitation Agreement that set forth a plan for the rehabilitation of Majestic (the "Rehabilitation Plan") by which the Company acquired the business of Majestic through a Renewal Rights and Asset Purchase Agreement (the "Purchase Agreement"), and a Loss Portfolio Transfer and Quota Share Reinsurance Agreement (the "Reinsurance Agreement"). On July 1, 2011, the Company, through one of its subsidiaries, entered into the Reinsurance Agreement, which was effective June 1, 2011, and assumed all of Majestic's liability for losses and loss adjustment expenses under workers' compensation insurance policies of approximately $331,660 on a gross basis (approximately $183,511 on a net basis), without any aggregate limit, and certain contracts related to Majestic's workers" compensation business, including leases for Majestic's California office space. In addition, the Company assumed 100% of the unearned premium reserve of approximately $25,997 on all in-force Majestic policies. In connection with this transaction, the Company received approximately $224,532 of cash and investments, which included $26,000 for a reserve deficiency and also included the assignment of Majestic's reinsurance recoverables of approximately $51,715. The Reinsurance Agreement also contains a profit sharing provision whereby the Company pays Majestic up to 3% of net earned premium related to current Majestic policies that are renewed by the Company in the three year period commencing on the closing date should the loss ratio on such policies for the three year period be 65% or less. The insurance premiums, which are included in the Company's Small Commercial Business segment, have been recorded since the acquisition date and were approximately $104,443 for the year ended December 31, 2012.

In accordance with FASB ASC 944-805 *Business Combinations*, the Company is required to adjust to fair value Majestic's loss and LAE reserves by taking the acquired loss reserves recorded and discounting them based on expected reserve payout patterns using a current risk-free rate of interest. This risk free interest rate was then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and the Company's best estimate of the fair value of such reserves at acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves. The Company determined the fair value of the loss reserves to be $328,905. Accordingly, the amortization will be recorded as an expense on the Company's income statement until fully amortized.

In consideration for the Company's assumption of (i) Majestic's losses and loss adjustment expenses under its workers' compensation insurance policies pursuant to the Reinsurance Agreement and (ii) Majestic's leases for its California offices, a Company subsidiary, pursuant to the Purchase Agreement, acquired the right to offer, quote and solicit the renewals of in-force workers' compensation policies written by Majestic, certain assets required to conduct such business, including intellectual property and information technology, certain fixed assets, and the right to offer employment to Majestic's California-based employees.

As a result of entering into the Purchase Agreement, the Company, in accordance with FASB ASC 805 *Business Combinations,* recorded $3,870 of intangible assets related to distribution networks and trademarks. The distribution networks have a life of 13 years and the trademarks have a life of 2 years. Additionally, the Company recorded a liability for approximately $390 related to an unfavorable lease assumed in the transaction and a liability for approximately $815 related to the above-mentioned profit sharing provision. During the three months ended December 31, 2012, this aforementioned profit sharing provision value was estimated to not be material.

As a result, the Company recorded an acquisition gain of $5,850 related to the entire Majestic purchase during the year ended December 31, 2011. A summary of the assets acquired and liabilities assumed for Majestic are as follows:

(Amounts in Thousands)		
Assets		
Cash and investments	$	224,532
Premium receivables		25,997
Reinsurance recoverables		148,149
Other assets		11,124
Intangible assets		6,625
Total assets	$	416,427
Liabilities		
Loss and loss expense reserves	$	331,660
Funds held under reinsurance treaties		51,715
Unearned premium		25,997
Accrued expenses and other current liabilities		1,205
Total liabilities	$	410,577
Acquisition gain	$	5,850

The Company has recorded written premium, which is included in the Company's Small Commercial Business segment, of approximately $104,443 and $42,882 for the years ended December 31, 2012 and 2011, respectively.

Warrantech

In August 2010, the Company, through its wholly-owned subsidiary AMT Warranty Corp., acquired 100% of the issued and outstanding capital stock of Warrantech Corporation and its subsidiaries (“Warrantech”) from WT Acquisition Holdings, LLC for approximately $7,500 in cash and an earnout payment to the sellers of a minimum of $2,000 and a maximum and $3,000 based on AMT Warranty Corp.’s EBITDA over the three-year period from January 1, 2011 through December 31, 2013. AMT Warranty Corp. issued 20% of its issued and outstanding common stock to the Chairman of Warrantech, which had a fair value of $6,900 as determined using both a market and an income approach. In 2012, the Company acquired the remaining 20% interest of AMT Warranty. The purchase price for the non-controlling interest was not material to the Company. Additionally, the Company settled its contingent consideration associated with the purchase of Warrantech acquisition for approximately $400.

6. Investment in Life Settlements

A life settlement contract is a contract between the owner of a life insurance policy and a third-party who obtains the ownership and beneficiary rights of the underlying life insurance policy. During 2010, the Company formed Tiger Capital LLC (“Tiger”) with a subsidiary of ACAC for the purposes of acquiring life settlement contracts. In 2011, the Company formed AMT Capital Alpha, LLC (“AMT Alpha”) with a subsidiary of ACAC and AMT Capital Holdings, S.A. (“AMTCH”) with ACP Re, Ltd., an entity controlled by the Michael Karfunkel Grantor Retained Annuity Trust, for the purposes of acquiring additional life settlement contracts. The Company has a fifty percent ownership interest in each of Tiger, AMT Alpha and AMTCH (collectively, the “LSC entities”). The LSC entities may also acquire premium finance loans made in connection with the borrowers’ purchase of life insurance policies that are secured by the policies, which are in default at the time of purchase. The LSC entities acquire the underlying policies through the borrowers’ voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator of the Tiger life settlement contract portfolio, for which it receives an annual fee. The third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. The Company provides certain actuarial and finance functions related to the LSC entities. Additionally, in conjunction with the Company’s 21.25% ownership percentage of ACAC, the Company ultimately receives 60.625% of the profits and losses of Tiger and AMT Alpha. As such, in accordance with ASC 810-10, *Consolidation,* the Company has been deemed the primary beneficiary and, therefore, consolidate the LSC entities.

The Company accounts for investments in life settlements in accordance with ASC 325-30, *Investments in Insurance Contracts*, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these policies using the fair value method. The Company determines fair value on a discounted cash flow basis of anticipated death benefits, incorporating current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available.

Total capital contributions of $40,062 and $43,000 were made to the LSC entities during the years ended December 31, 2012 and 2011, respectively, for which the Company contributed approximately $20,100 and $21,500 in those same periods. The LSC entities used a majority of the contributed capital to acquire certain life insurance policies of approximately $15,810 and $31,000 for the years ended December 31, 2012 and 2011, respectively, as well as pay premiums on existing policies and premium finance loans. The Company's investments in life settlements and cash value loans were approximately $193,927 and $136,800 as of December 31, 2012 and 2011, respectively and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. The Company recorded a gain on investment in life settlement contracts net of profit commission for the years ended December 31, 2012, 2011 and 2010 of approximately $13,822, $46,900 and $11,855, respectively, related to the life settlement contracts.

In addition to the 256 and 237 policies disclosed in the table below as of December 31, 2012 and 2011, respectively, Tiger owned 13 and 36 premium finance loans as of December 31, 2012 and 2011, respectively, which were secured by life insurance policies and were carried at a value of $0 and $5,391 as of December 31, 2012 and 2011, respectively. As of December 31, 2012, the face value amount of the related 256 life insurance policies and 13 premium finance loans were approximately $1,672,909 and $0, respectively. All of the premium finance loans are in default and Tiger is enforcing its rights in the collateral. Upon the voluntary surrender of the underlying life insurance policy in satisfaction of the loan or foreclosure, Tiger will become the owner of and beneficiary under the underlying life insurance policy and will have the option to continue to make premium payments on the policies or allow the policies to lapse. If a policyholder wishes to cure his or her default and repay the loan, Tiger will be repaid the total amount due under the premium finance loans, including all premium payments made by Tiger to maintain the policy in force since its acquisition of the loan.

The following tables describe the Company's investment in life settlements as of December 31, 2012 and 2011:

(Amounts in thousands, except Life Settlement Contracts) Expected Maturity Term in Years	Number of Life Settlement Contracts	Fair Value (1)	Face Value
As of December 31, 2012			
0 – 1	—	$ —	$ —
1 – 2	6	27,511	58,000
2 – 3	4	13,678	25,000
3 – 4	1	4,775	10,000
4 – 5	2	6,004	20,000
Thereafter	243	141,959	1,559,909
Total	256	$ 193,927	$ 1,672,909
As of December 31, 2011			
0 – 1	—	$ —	$ —
1 – 2	—	—	—
2 – 3	1	6,665	10,000
3 – 4	1	2,703	5,000
4 – 5	2	9,630	20,000
Thereafter	233	112,389	1,483,183
Total	237	$ 131,387	$ 1,518,183

(1) The Company determined the fair value as of December 31, 2012 based on 173 policies out of 256 policies, as the Company assigned no value to 83 of the policies. The Company determined the fair value as of December 31, 2011 based on 135 policies out of 237 policies, as the Company assigned no value to 102 of the policies. The Company estimated the fair value of a policy using present value calculations. If the estimate fair value is determined to be less than zero, then no value is assigned to that policy.

Premiums to be paid for each of the five succeeding fiscal years to keep the life insurance policies in force as of December 31, 2012, are as follows:

(Amounts in Thousands)	Premiums Due on Life Settlement Contracts	Premiums Due on Premium Finance Loans	Total
2013	$ 28,397	$ 744	$ 29,141
2014	30,569	876	31,445
2015	31,831	1,068	32,899
2016	42,049	1,749	43,798
2017	40,479	1,188	41,667
Thereafter	523,385	20,346	543,731
	$ 696,710	$ 25,971	$ 722,681

7. Intangible Assets and Goodwill

The composition of the intangible assets is summarized as follows:

(Amounts in Thousands) As of December 31, 2012	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$ 229,780	$ —	$ 229,780	Indefinite Life
Renewal rights	30,880	7,373	23,507	7 – 17 years
Covenant not to compete	7,756	6,629	1,127	3 – 9 years
Distribution networks	96,586	20,748	75,838	10 – 20 years
Software	2,293	2,052	241	20 years
Customer relationships	63,595	6,085	57,510	5 – 18 years
Trademarks	5,193	3,615	1,578	2 – 15 years
Trademarks	5,033	—	5,033	Indefinite Life
Licenses	12,608	1,255	11,353	5 - 50 years
Licenses	14,340	—	14,340	Indefinite Life
Contractual use rights	132,991	51,997	80,994	Specific use
Preemptive use rights	11,868	—	11,868	Indefinite Life
Other	2,755	957	1,798	4 years
Total	$ 615,678	$ 100,711	$ 514,967	10 years average

(Amounts in Thousands) As of December 31, 2011	Gross Balance	Accumulated Amortization	Net Value	Useful Life
Goodwill	$ 175,924	$ —	$ 175,924	Indefinite Life
Renewal rights	21,480	3,150	18,330	7 – 17 years
Covenant not to compete	7,756	4,569	3,187	3 – 9 years
Distribution networks	85,042	14,754	70,288	10 – 20 years
Software	2,305	2,028	277	20 years
Customer relationships	23,263	4,595	18,668	5 – 10 years
Trademarks	5,124	2,105	3,019	2 – 15 years
Trademarks	5,033	—	5,033	Indefinite Life
License	408	27	381	50 years
Licenses	14,340	—	14,340	Indefinite Life
Contractual use rights	98,306	37,405	60,901	Specific use
Other	2,755	317	2,438	4 years
Total	$ 441,736	$ 68,950	$ 372,786	10 years average

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2012 and 2011 are as follows:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Total
Balance as of January 1, 2011	$ 47,688	$ 53,212	$ 5,320	$ 106,220
Goodwill additions	38,124	23,288	8,300	69,712
Foreign currency translation	—	(8)	—	(8)
Balance as of January 1, 2012	$ 85,812	$ 76,492	$ 13,620	$ 175,924
Goodwill additions	30,460	21,340	2,200	54,000
Foreign currency translation	—	(144)	—	(144)
Balance as of December 31, 2012	$ 116,272	$ 97,688	$ 15,820	$ 229,780

Goodwill added during 2012 resulted primarily from the acquisition of FNC in the Small Commercial Business segment and the CNH Capital Insurance Agencies in the Specialty Risk and Extended Warranty segment. Goodwill added during 2011 resulted primarily from the acquisitions of BTIS and Cardinal Comp and other adjustments for deferred tax liabilities in the Small Commercial Business segment, the finalization of acquisition adjustments for Warrantech in the Specialty Risk and Extended Warranty segment and contingent consideration related to a Specialty Program business.

Goodwill and intangible assets are subject to annual impairment testing. No impairment was recorded during the years ended December 31, 2012, 2011 and 2010. Finite lived intangible assets are amortized under the straight-line method, except for renewal rights, which the Company amortizes using a 125% accelerated method, and contractual use rights, which are amortized based on actual use. Amortization expense for 2012, 2011 and 2010 was $31,761, $40,194 and $14,305, respectively. The estimated aggregate amortization expense for each of the next five years is:

(Amounts in Thousands)	
2013	$ 37,120
2014	33,319
2015	30,520
2016	27,009
2017	23,517

8. Property and Equipment, Net

(Amounts in Thousands) As of December 31,	2012	2011
Land	$ 7,593	$ 7,593
Building	21,636	21,516
Software	41,915	26,428
Computer equipment	17,384	15,471
Other equipment	18,059	17,239
Leasehold improvements	10,596	1,335
	117,183	89,582
Less: Accumulated depreciation and amortization	(41,250)	(28,029)
	$ 75,933	$ 61,553

Depreciation expense was $13,221, $9,806 and $6,039 for the years ended December 31, 2012, 2011 and 2010.

9. Liability for Unpaid Loss and LAE

The following table provides a reconciliation of the beginning and ending balances for unpaid losses and LAE, reported in the accompanying consolidated balance sheets as of December 31, 2012, 2011 and 2010:

(Amounts in Thousands)	2012	2011	2010
Unpaid losses and LAE, gross of related reinsurance recoverables at beginning of year	$ 1,879,175	$ 1,263,537	$ 1,091,944
Less: Reinsurance recoverables at beginning of year	972,392	670,877	561,874
Net balance, beginning of year	906,783	592,660	530,070
Incurred related to:			
Current year	909,818	665,812	463,535
Prior year	12,857	12,521	7,946
Total incurred losses during the year	922,675	678,333	471,481
Paid losses and LAE related to:			
Current year	(406,238)	(390,267)	(222,593)
Prior year	(285,479)	(179,721)	(187,012)
Total payments for losses and LAE	(691,717)	(569,988)	(409,605)
Commuted loss reserves	91,529	—	1,350
Net balance, December 31	1,229,270	701,005	593,296
Acquired outstanding loss and loss adjustment reserve	13,137	209,651	—
Effect of foreign exchange rates	3,781	(3,873)	(636)
Plus reinsurance recoverables at end of year	1,180,212	972,392	670,877
Unpaid losses and LAE, gross of related reinsurance recoverables at end of year	$ 2,426,400	$ 1,879,175	$ 1,263,537

In 2012, various subsidiaries of the Company participated in a commutation related to quota share reinsurance agreements with National Indemnity Company covering the 2009 and 2010 European medical liability program. The amount of the commutation was approximately $91,529. The commutation did not have any impact on the Company's results of operations for 2012.

In 2012, 2011 and 2010, the Company's liabilities for unpaid losses and LAE attributable to prior years increased by $12,857, $12,521 and $7,946, respectively, primarily as a result of unfavorable loss development in its Specialty Program segment due to higher actuarial estimates based on actual losses.The percentage of the Company's unpaid losses and LAE related to IBNR was 34.5%, 40.3% and 45.1% as of December 31, 2012, 2011 and 2010, respectively. The reduction in IBNR as a percentage of overall loss reserves within this segment is a result of redefining IBNR within our European operations, which lead to the classification of a greater percentage of those reserves as case reserves as opposed to IBNR. In setting its reserves, the Company utilizes a combination of Company loss development factors and industry-wide loss development factors. In the event that the Company's losses develop more favorably than the industry, as a whole, the Company's liabilities for unpaid losses and LAE should decrease. Management believes that its use of both its historical experience and industry-wide loss development factors provide a reasonable basis for estimating future losses. As the Company has written more business and developed more credible data, the Company has assigned more weight to its historical experience than to industry-wide results. In either case, future events beyond the control of management, such as changes in law, judicial interpretations of law, and inflation may favorably or unfavorably impact the ultimate settlement of the Company's loss and LAE.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated changes in claim costs due to inflation are considered in estimating the ultimate claim costs, the increase in average severity of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and are modified if necessary.

10. Accrued Expenses and Other Liabilities

(Amounts in Thousands) As of December 31,	2012	2011
Premium taxes, assessments and surcharges payable	$ 110,540	$ 67,138
Commissions payable	65,708	43,923
Deferred warranty revenue	62,721	51,011
Due to sellers	48,950	58,059
Other accrued expenses	43,394	29,518
Deposits from customers	30,996	17,396
Claims payable	23,313	18,005
Accounts payable	11,098	8,464
Premiums collected in advance	9,727	18,279
	$ 406,447	$ 311,793

11. Debt

The Company’s borrowings consisted of the following at December 31, 2012 and 2011:

(Amounts in Thousands) As of December 31,	2012	2011
Revolving credit facility	$ —	$ —
Subordinated debentures	123,714	123,714
Convertible senior notes	161,218	138,506
Secured loan agreements	9,041	10,018
Promissory notes	8,000	7,362
	$ 301,973	$ 279,600

Aggregate scheduled maturities of the Company’s borrowings at December 31, 2012 are:

(Amounts in Thousands)	
2013	$ 1,021
2014	1,068
2015	1,116
2016	1,167
2017	1,220
Thereafter	296,381 (1)

(1) Amount reflected in balance sheet for convertible senior notes is net of unamortized original issue discount of $38,782.

Revolving Credit Agreement

On August 10, 2012, the Company entered into a four-year, $200,000 credit agreement (the "Credit Agreement"), among JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and SunTrust Bank, as Co-Syndication Agents, Associated Bank, National Association and Lloyds Securities Inc., as Co-Documentation Agents and various lending institutions party thereto. The credit facility is a revolving credit facility with a letter of credit sublimit of $100,000 and an expansion feature not to exceed $100,000. In connection with entering into the Credit Agreement, the Company terminated its existing $150,000 credit agreement, dated as of January 28, 2011 with JPMorgan Chase Bank, N.A. Fees associated with the Credit Agreement were approximately $989. The Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions

and investments, restricted payments and dispositions. There are also financial covenants that require the Company to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. The Company was in compliance with all of its covenants as of December 31, 2012.

As of December 31, 2012, the Company had no outstanding borrowings under this Credit Agreement. The Company had outstanding letters of credit in place under this Credit Agreement at December 31, 2012 for $95,807, which reduced the availability for letters of credit to $4,193 as of December 31, 2012, and the availability under the facility to $104,193 as of December 31, 2012.

Borrowings under the Credit Agreement bear interest at (x) the greatest of (a) the Administrative Agent's prime rate, (b) the federal funds effective rate plus 0.5 percent or (c) the adjusted LIBO rate for a one month interest period on such day plus 1 percent, plus (y) a margin that is adjusted on the basis of the Company's consolidated leverage ratio. Eurodollar borrowings under the credit agreement will bear interest at the adjusted LIBO rate for the interest period in effect plus a margin that is adjusted on the basis of the Company's consolidated leverage ratio. The interest rate on the credit facility as of December 31, 2012 and 2011 was 2.50%. The Company recorded total interest expense of approximately $1,884 and $2,697 for the years ended December 31, 2012 and 2011, respectively, under the Credit Agreements.

Fees payable by the Company under the Credit Agreement include a letter of credit participation fee (which is the margin applicable to Eurodollar borrowings and was 1.50% at December 31, 2012), a letter of credit fronting fee with respect to each letter of credit (0.125%) and a commitment fee on the available commitments of the lenders (a range of 0.20% to 0.30% based on the Company's consolidated leverage ratio and was 0.25% at December 31, 2012).

Junior Subordinated Debt

The Company has established four special purpose trusts for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in junior subordinated debentures issued by the Company. In accordance with FASB ASC 810-10-25, the Company does not consolidate such special purpose trusts, as the Company is not considered to be the primary beneficiary. The equity investment, totaling $3,714 as of December 31, 2012 on the Company's consolidated balance sheet, represents the Company's ownership of common securities issued by the trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on the Company's common stock under certain circumstances, including default of payment. The Company incurred $2,605 of placement fees in connection with these issuances which is being amortized over thirty years. The Company recorded $8,297, $9,871 and $10,209 of interest expense for the years ended December 31, 2012, 2011 and 2010, respectively, related to these trust preferred securities.

The table below summarizes the Company's trust preferred securities as of December 31, 2012:

(Amounts in Thousands) Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate of Notes
AmTrust Capital Financing Trust I	$ 25,000	$ 774	$ 25,774	3/17/2035	8.275% (1)
AmTrust Capital Financing Trust II	25,000	774	25,774	6/15/2035	7.710 (1)
AmTrust Capital Financing Trust III	30,000	928	30,928	9/15/2036	3.608 (2)
AmTrust Capital Financing Trust IV	40,000	1,238	41,238	3/15/2037	3.308 (3)
Total trust preferred securities	$ 120,000	$ 3,714	$ 123,714		

(1) The interest rate will change to three-month LIBOR plus 3.40% after the tenth anniversary in 2015.
(2) The interest rate is LIBOR plus 3.30%.
(3) The interest rate is LIBOR plus 3.00%.

The Company entered into two interest rate swap agreements related to these junior subordinated debentures, which effectively convert the interest rate on the trust preferred securities from a variable rate to a fixed rate. Each agreement is for a period of five years and commenced on September 15, 2011 for tranche III and March 15, 2012 for tranche IV.

Convertible Senior Notes

In December 2011, the Company issued $175,000 aggregate principal amount of its 5.50% convertible senior notes due 2021 (the "Notes") to certain initial purchasers in a private placement. In January 2012, the Company issued an additional $25,000 of the Notes to cover the initial purchasers' overallotment option. The Notes bear interest at a rate equal to 5.50% per year, payable semiannually in arrears on June 15 and December 15th of each year, beginning on June 15, 2012.

The Notes will mature on December 15, 2021 (the "Maturity Date"), unless earlier purchased by the Company or converted into shares of the Company's common stock, par value $0.01 per share (the "Common Stock"). Prior to September 15, 2021, the Notes will be convertible only upon satisfaction of certain conditions, and thereafter, at any time prior to the close of business on the second scheduled trading day immediately preceding the Maturity Date. The conversion rate at December 31, 2012 is equal to 34.5759 shares of Common Stock per $1,000 principal amount of Notes, which corresponds to a conversion price of approximately $28.92 per share of Common Stock. The conversion rate is subject to adjustment upon the occurrence of certain events as set forth in the indenture governing the notes. Upon conversion of the Notes, the Company will, at its election, pay or deliver, as the case may be, cash, shares of Common Stock, or a combination of cash and shares of Common Stock.

Upon the occurrence of a fundamental change (as defined in the indenture governing the notes) involving the Company, holders of the Notes will have the right to require the Company to repurchase their Notes for cash, in whole or in part, at 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date.

The Company separately allocated the proceeds for the issuance of the Notes to a liability component and an equity component, which is the embedded conversion option. The equity component was reported as an adjustment to paid-in-capital, net of tax, and is reflected as an original issue discount ("OID"). The OID of $41,679 and deferred origination costs relating to the liability component of $4,750 will be amortized into interest expense over the term of the loan of the Notes. After considering the contractual interest payments and amortization of the original discount, the Notes effective interest rate was 8.57%. Transaction costs of $1,250 associated with the equity component were netted in paid-in-capital. Interest expense, including amortization of deferred origination costs, recognized on the Notes was $14,031 and $524 for the years ended December 31, 2012 and 2011, respectively.

The following table shows the amounts recorded for the Notes as of December 31, 2012 and 2011:

(Amounts in Thousands)	December 31, 2012	December 31, 2011
Liability component		
Outstanding principal	$ 200,000	$ 175,000
Unamortized OID	(38,782)	(36,494)
Liability component	$ 161,218	$ 138,506
Equity component, net of tax	$ 27,092	$ 23,785

Secured Loan Agreement

During February 2011, the Company, through a wholly-owned subsidiary, entered into a seven year secured loan agreement with Bank of America Leasing & Capital, LLC in the aggregate amount of $10,800 to finance the purchase of an aircraft. The loan bears interest at a fixed rate of 4.45%, requires monthly installment payments of approximately $117 commencing on March 25, 2011 and ending on February 25, 2018, and a balloon payment of $3,240 at the maturity date. The Company recorded interest expense of approximately $432 and $402 for the years ended December 31, 2012 and 2011, respectively, related to this agreement. The loan is secured by the aircraft.

The agreement contains certain covenants that are similar to the Company's revolving credit facility. Additionally, subsequent to February 25, 2012, but prior to payment in full, if the outstanding balance of this loan exceeds 90% of the fair

value of the aircraft, the Company is required to pay the lender the entire amount necessary to reduce the outstanding principal balance to be equal to or less than 90% of the fair value of the aircraft. The agreement allows the Company, under certain conditions, to repay the entire outstanding principal balance of this loan without penalty.

Promissory Notes

In September 2012, as part of its participation in the New Market Tax Credit Program discussed in Note 20. "New Market Tax Credit", the Company entered into two promissory notes totaling $8,000. The loans are for a period of 15 years and have an average interest rate of 1.7% per annum. The Company recorded interest expense of approximately $100 for the year ended December 31, 2012 related to the notes. Additionally, the Company recorded approximately $1,430 of deferred financing fees.

Comerica Letter of Credit Facility

In connection with the Majestic acquisition discussed in Note 5 "Acquisitions," the Company, through one of its subsidiaries, entered into a secured letter of credit facility with Comerica Bank during the three months ended September 30, 2011. The Company utilizes this letter of credit facility to comply with the deposit requirements of the State of California and the U.S. Department of Labor as security for the Company's obligations to workers' compensation and Federal Longshore and Harbor Workers' Compensation Act policyholders. The credit limit is for $75,000 and was utilized for $49,634 as of December 31, 2012. The Company is required to pay a letter of credit participation fee for each letter of credit in the amount of 0.40%.

Other Letters of Credit

As of December 31, 2012, the Company, through certain subsidiaries, has additional existing stand-by letters of credit in the amount of $7,377 outstanding, which reduced the availability on the letters of credit to $11 as of December 31, 2012.

12. Reinsurance

The Company structures its reinsurance programs by analyzing its threshold for risk in each line of business and on an overall consolidated basis, based on a number of factors, including market conditions, pricing, competition and the inherent risks associated with each business type. Based on its analysis of these factors, the Company may determine not to purchase reinsurance for some lines of business. The Company generally purchases reinsurance to reduce its net liability on individual risks and to protect against catastrophe losses and volatility. The Company retains underwriting risk in certain lines of business in order to retain a greater proportion of expected underwriting profits. The Company has chosen not to purchase any reinsurance on businesses where volatility or catastrophe risks are considered remote and limits are within its risk tolerance.

The Company purchases reinsurance on a proportional basis to cover loss frequency, individual risk severity and catastrophe exposure. Some of the proportional reinsurance agreements may have maximum loss limits, most of which are at or greater than a 500% loss ratio. The Company also purchases reinsurance on an excess of loss basis to cover individual risk, severity and catastrophe exposure. Additionally, the Company may obtain facultative reinsurance protection on a single risk. The type and amount of reinsurance the Company purchases varies year to year based on its risk assessment, its desired retention levels based on profitability and other considerations, and the market availability of quality reinsurance at prices the Company considers acceptable. Our reinsurance programs renew throughout the year, and the price changes in recent years have not been material to the Company's net underwriting results. The Company's reinsurance generally does not cover war or nuclear, biological, chemical or radiological terrorism risks.

In its proportional reinsurance programs, the Company generally receives a commission on the premium ceded to reinsurers. This compensates the Company's insurance companies for the direct costs associated with production of the business, the servicing of the business during the term of the policies ceded, and the costs associated with placement of reinsurance that benefits the proportional programs. In addition, certain of the Company's reinsurance treaties allow it to share in any net profits generated under such treaties with the reinsurers. Various reinsurance brokers may arrange for the placement of this reinsurance coverage on the Company's behalf and are compensated, directly or indirectly, by the reinsurers. The Company also enters reinsurance relationships with third-party captives formed by agents and other business partners as a mechanism for sharing risk and profit.

In order to reduce its exposure to reinsurance credit risk, the Company evaluates the financial condition of its reinsurers and places its reinsurance with a diverse group of companies and syndicates that it believes to be financially sound. The

Company carefully monitors the credit quality of its reinsurers when the Company places new and renewal reinsurance, as well as on an ongoing, current basis. The Company uses objective criteria to select and retain its reinsurers, including requiring minimum surplus of $500,000 and a financial strength rating of "A-" or better from A.M. Best Company, Inc. or Standard & Poor's Corporation. The Company approves exceptions to these criteria when warranted.

The Company monitors its financial exposure to the reinsurance market and takes necessary actions in an attempt to mitigate its exposure to possible loss. The Company limits its liquidity exposure for uncollected recoverables by holding funds, letters of credit or other security, such that net balances due from reinsurers are significantly less than the gross balances shown in its consolidated balance sheets. The Company monitors the collectability of its reinsurance recoverables and records a reserve for uncollectible reinsurance when it determines an amount is potentially uncollectible. The Company's evaluation is based on its periodic reviews of its disputed and aged recoverables, as well as its assessment of recoverables due from reinsurers known to be in financial difficulty. In some cases, the Company makes estimates as to what portion of a recoverable may be uncollectible. The Company's estimates and judgment about the collectability of the recoverables and the financial condition of reinsurers can change, and these changes can affect the level of reserve required.

Reinsurance Programs and Retentions

The following tables provide a summary of the Company's primary reinsurance programs for 2012 for the United States and internationally:

(Amounts in Thousands)	2012 Domestic Reinsurance Program		
Type of Reinsurance	Retention	Limits (per occurrence)	Coverage
Worker's Compensation Excess of Loss	$ 5,000	$ 230,000	100% of $225,000
Property, Excess of Loss	$ 2,000	$ 20,000	100% of $18,000
Property Catastrophe, excess	$ 5,000	$ 65,000	100% of $60,000
Casualty Excess of Loss	$ 2,000	$ 30,000	100% of $28,000
Public Entity, Pro Rata	N/A	$ 10,000	20% of $10,000
Professional Liability, Excess of Loss	$ 500	$ 5,000	100% of $4,500
Equipment Breakdown, Pro Rata	N/A	$ 25,000	100% of $25,000
Umbrella, Pro Rata	N/A	$ 10,000	85% of $10,000

(Amounts in Thousands)	2012 International Reinsurance Program		
Type of Reinsurance	Retention	Limits(per occurrence)	Coverage
Property, Excess of Loss	$ 800	$ 3,200	100% of $2,400
Property Catastrophe, Excess of Loss	$ 8,000	$ 72,000	100% of $64,000
Surety, Pro Rata and Excess of Loss	$ 4,000	$ 32,500	100% of $28,500
Casualty Excess of Loss	$ 1,600	$ 16,000	100% of $15,200
Latent Defect Excess of Loss	$ 1,300	$ 40,000	100% of $38,700
Accident and Health Excess of Loss	$ 800	$ 24,000	100% of $23,200
Medical Malpractice, Pro Rata[1]	N/A	$ 13,000	100% of $13,000

[1] Reinsurance agreement with Maiden Insurance by which we cede 40% of our European medical liability business. For a description of this agreement, see Note 13. "Related Party Transactions."

If the Company incurs catastrophe losses and loss settlement expenses that exceed the coverage limits of its reinsurance program, many of its property catastrophe programs have built in a fixed number of reinstatement of limits. For example, if the

Company incurs a property catastrophe loss, it is required to pay the reinsurers a reinstatement premium equal to the full amount of the original premium.

During the third quarter of 2007, the Company entered into a master agreement with Maiden, as amended, by which its Bermuda subsidiary, AII, and Maiden Insurance entered into a quota share reinsurance agreement, as amended (the "Maiden Quota Share"). For a description of this agreement, see Note 13. "Related Party Transactions."

The effect of reinsurance with unrelated companies on premiums and losses for 2012, 2011 and 2010 are as follows:

	Year Ended December 31,					
	2012		2011		2010	
(Amounts in Thousands)	Written	Earned	Written	Earned	Written	Earned
Premiums:						
Direct	$ 2,494,846	$ 2,067,635	$ 1,843,185	$ 1,553,878	$ 1,375,993	$ 1,220,164
Assumed	254,480	270,008	307,287	265,258	184,829	160,285
Ceded	(1,101,289)	(918,791)	(873,875)	(782,275)	(733,596)	(634,790)
	$ 1,648,037	$ 1,418,852	$ 1,276,597	$ 1,036,861	$ 827,226	$ 745,659

	As of December 31,					
	2012		2011		2010	
(Amounts in Thousands)	Assumed	Ceded	Assumed	Ceded	Assumed	Ceded
Loss and LAE reserves	$ 503,174	$ (1,185,056)	$ 547,127	$ (972,392)	$ 129,066	$ (670,877)
Unearned premiums	108,679	(754,844)	124,207	(584,871)	77,548	(484,960)
Loss and LAE expense incurred	166,191	(638,595)	222,859	(575,794)	105,501	(441,106)

The Company continuously updates the reserves on these lines of business based on information available from the ceding insurers. During 2012 and 2011, the Company had no commutations related to workers' compensation that were included in ceded reinsurance treaties.

13. Related Party Transactions

Maiden

The Company has various reinsurance and service agreements with Maiden Holdings, Ltd. (“Maiden”). Maiden is a publicly-held Bermuda insurance holding company (Nasdaq: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, the principal shareholders, and, respectively, the chairman of the board of directors, a director, and the chief executive officer and director of the Company. As of December 31, 2012, our principal shareholders, Michael Karfunkel, Leah Karfunkel (wife of Michael Karfunkel and sole trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust), George Karfunkel and Barry Zyskind, own or control approximately 5.4%, 7.6%, 9.4% and 5.1%, respectively, of the issued and outstanding capital stock of Maiden. Mr. Zyskind serves as the non-executive chairman of the board of Maiden’s board of directors. Maiden Insurance Company, Ltd (“Maiden Insurance”), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer. The following section describes the agreements in place between the Company and its subsidiaries and Maiden and its subsidiaries.

Reinsurance Agreements with Maiden Holdings, Ltd.

In 2007, the Company and Maiden entered into a master agreement, as amended, by which the parties caused the Company’s Bermuda subsidiary, AmTrust International Insurance, Ltd. (“AII”) and Maiden Insurance to enter into a quota share reinsurance agreement (the “Maiden Quota Share”), as amended, by which AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by the Company’s U.S., Irish and U.K. insurance companies (the “AmTrust Ceding Insurers”), net of the cost of unaffiliated inuring reinsurance (and in the case of the Company’s U.K. insurance subsidiary, AmTrust Europe Ltd., net of commissions) and 40% of losses excluding certain specialty risk programs that the Company commenced writing after the effective date, including the Company's European medical liability business discussed below, and risks, other than workers’ compensation risks and certain business written by the Company’s Irish subsidiary, AmTrust International Underwriters Limited (“AIU”), for which the AmTrust Ceding Insurers’ net retention exceeds $5,000 (“Covered Business”).

The Maiden Quota Share, which had an initial term of three years, was renewed through June 30, 2014 and will automatically renew for successive three-year terms unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on thirty days’ notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders’ equity of Maiden Insurance or the combined shareholders’ equity of AII and the AmTrust Ceding Insurers.

The Maiden Quota Share, as amended, further provides that AII receives a ceding commission based on a percentage of ceded written premiums with respect to all Covered Business. Commencing January 1, 2012, the ceding commission with respect to all Covered Business other than the retail commercial package business is adjusted on a quarterly basis to (a) 30% of ceded premium, if the Specialty Risk and Extended Warranty subject premium, excluding ceded premium related to our medical liability business discussed below, is greater than or equal to 42% of the total subject premium, (b) 30.5% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 42% but greater than or equal to 38%, or (c) 31% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 38% of the total subject premium. The ceding commission for the retail commercial package business is 34.375% of ceded premium. From April 1, 2011 until December 31, 2011, AII received a ceding commission of 30% of ceded written premium with respect to all Covered Business other than the retail commercial package business, for which the ceding commission was 34.375%. Prior to April 1, 2011, AII received a ceding commission of 31% of ceded premiums with respect to all Covered Business other than the retail commercial package business, for which ceding commission was 34.375%.

Effective April 1, 2011, the Company, through its subsidiaries AEL and AIU, entered into a reinsurance agreement with Maiden Insurance by which the Company cedes to Maiden Insurance 40% of its European medical liability business, including business in force at April 1, 2011. The quota share had an initial term of one year and was renewed through March 31, 2014. The agreement can be terminated by either party on four months’ prior written notice. Maiden Insurance pays the Company a 5% ceding commission, and the Company will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%.

Effective September 1, 2010, the Company, through its subsidiary, Security National Insurance Company ("SNIC"), entered into a reinsurance agreement with Maiden Reinsurance Company and an unrelated third party. Under the agreement, which had an initial term of one year and has been extended to August 31, 2013, SNIC cedes 80% of the gross liabilities produced under the Southern General Agency program to Maiden Reinsurance Company and 20% of the gross liabilities produced to the unrelated third party. SNIC receives a five percent commission on ceded written premiums.

The following is the effect on the Company's results of operations for the years ended December 31, 2012, 2011 and 2010 related to the Maiden Quota Share agreement:

(Amounts in Thousands)	2012	2011	2010
Results of operations:			
Premium written – ceded	$ (846,491)	$ (703,175)	$ (463,042)
Change in unearned premium – ceded	116,168	143,553	21,771
Earned premium – ceded	$ (730,323)	$ (559,622)	$ (441,271)
Ceding commission on premium written	$ 223,111	$ 182,316	$ 144,598
Ceding commission – deferred	(26,129)	(28,363)	(6,487)
Ceding commission – earned	$ 196,982	$ 153,953	$ 138,111
Incurred loss and loss adjustment expense – ceded	$ 526,210	$ 401,822	$ 295,469

Fronting Arrangement with Maiden Specialty Insurance Company

Effective September 1, 2010, the Company, through its subsidiary Technology Insurance Company. Inc. ("TIC"), entered into a quota share reinsurance agreement with Maiden Specialty Insurance Company ("Maiden Specialty") by which TIC assumes a portion (generally 90%) of premiums and losses with respect to certain surplus lines programs written by Maiden Specialty on behalf of the Company (the "Surplus Lines Facility"). The Surplus Lines Facility enables the Company to write business on a surplus lines basis throughout the United States. Currently, the Company is utilizing the Surplus Lines Facility for two programs for which Maiden Specialty receives a five percent ceding commission on all premiums ceded by Maiden Specialty to TIC. The Surplus Lines Facility shall remain continuously in force until terminated. The Company has surplus lines authority for two of its insurance company subsidiaries, which has significantly decreased the need for the Surplus Lines Facility. As a result of this agreement, the Company assumed approximately $524 and $18,000 of written premium during the years ended December 31, 2012 and 2011, respectively. The Company recorded earned premium of approximately $7,507 and $10,400 and incurred losses of approximately $4,552 and $6,500 for the years ended December 31, 2012 and 2011, respectively. The Company did not enter into any material transactions related to this agreement during 2010.

Note Payable to Maiden — Collateral for Proportionate Share of Reinsurance Obligation

In conjunction with the Maiden Quota Share, as described above, AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby Maiden Insurance loaned to AII the amount equal to its quota share of the obligations of the AmTrust Ceding Insurers that AII was then obligated to secure. The loan agreement provides for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Advances under the loan are secured by a promissory note and totaled $167,975 as of December 31, 2012 and 2011. The Company recorded $1,951, $1,925 and $982 of interest expense during the years ended December 31, 2012, 2011 and 2010, respectively. Effective December 1, 2008, AII and Maiden Insurance entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Insurance is required to provide AII the assets required to secure Maiden's proportionate share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral as of December 31, 2012 was approximately $864,101. Maiden retains ownership of the collateral in the trust account.

Reinsurance Brokerage Agreement

Effective July 1, 2007, the Company, through a subsidiary, entered into a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, the Company provides brokerage services relating to the Maiden Quota Share for a fee equal to 1.25% of reinsured premium. The Company recorded $8,759, $8,082 and $5,841 of brokerage commission (recorded as a component of Service and fee income) during the years ended December 31, 2012, 2011 and 2010, respectively.

Asset Management Agreement

Effective July 1, 2007, the Company, through a subsidiary, entered into an asset management agreement with Maiden, pursuant to which it provides investment management services to Maiden and its affiliates. The Company currently manages approximately $2,800,000 of assets related to this agreement. The investment management services fee is an annual rate of 0.20% for periods in which average assets are $1,000,000 or less and an annual rate of 0.15% for periods in which the average invested assets exceed $1,000,000. As a result of this agreement, the Company earned approximately $3,697, $3,046 and $2,693 of investment management fees (recorded as a component of service and fee income) for the years ended December 31, 2012, 2011 and 2010, respectively.

Senior Notes

In June 2011, the Company, through a subsidiary, participated as a purchaser in a registered public offering by Maiden Holdings North America, Ltd., a subsidiary of Maiden, for $12,500 of an aggregate $107,500 principal amount of 8.25% Senior Notes due 2041 (the "Notes") that are fully and unconditionally guaranteed by Maiden. The Notes are redeemable for cash, in whole or in part, on or after June 15, 2016, at 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but not including, the redemption date. The Company had an unrealized gain of $446 on the senior notes for the year ended December 31, 2012.

American Capital Acquisition Corporation

During the three months ended March 31, 2010, the Company completed its strategic investment in American Capital Acquisition Corporation ("ACAC"). ACAC was formed by The Michael Karfunkel 2005 Grantor Retained Annuity Trust (the "Trust") and the Company for the purpose of acquiring from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation ("MIC", together with GMAC Insurance Holdings, Inc., "GMACI"), GMACI's U.S. consumer property and casualty insurance business (the "GMACI Business"), a writer of automobile coverages through independent agents in the United States. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the "GMACI Insurers"). Michael Karfunkel, individually, and the Trust own 100% of ACAC's common stock (subject to the Company's conversion rights described below). Michael Karfunkel is the chairman of the board of directors of the Company and the father-in-law of Barry D. Zyskind, the chief executive officer of the Company. The ultimate beneficiaries of the Trust include Michael Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman of the Board of Directors of ACAC.

Pursuant to the Amended Stock Purchase Agreement, ACAC issued and sold to the Company for an initial purchase price of approximately $53,000, which was equal to 25% of the capital initially required by ACAC, $53,054 shares of Series A Preferred Stock, which provides an 8% cumulative dividend, is non-redeemable and is convertible, at the Company's option, into 21.25% of the issued and outstanding common stock of ACAC (the "Preferred Stock"). The Company has pre-emptive rights with respect to any future issuances of securities by ACAC and the Company's conversion rights are subject to customary anti-dilution protections. The Company has the right to appoint two members of ACAC's board of directors, which consists of six members. Subject to certain limitations, the board of directors of ACAC may not take any action at a meeting without at least one of the Company's appointees in attendance and ACAC may not take certain corporate actions without the approval of a majority of its board of directors (including the Company's two appointees).

The Company, the Trust and Michael Karfunkel, individually, each shall be required to make its or his proportionate share of deferred payments payable by ACAC to GMACI pursuant to the GMACI Securities Purchase Agreement, the final payment of which is payable March 1, 2013, to the extent that ACAC is unable to otherwise provide for such payments. The Company's proportionate share of such deferred payments as of December 31, 2012 will not exceed $7,500. In addition, in connection with the Company's investment, ACAC granted the Company a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMACI. In February 2013, the Company's obligation for any remaining deferred payment was eliminated.

In accordance with ASC 323-10-15, *Investments-Equity Method and Joint Ventures*, the Company accounts for its investment in ACAC under the equity method. The Company recorded $9,295, $4,882 and $24,514 of income during the years ended December 31, 2012, 2011 and 2010, respectively related to its equity investment in ACAC.

Personal Lines Quota Share

The Company, effective March 1, 2010, reinsures 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement ("Personal Lines Quota Share") among Integon National Insurance Company, lead insurance company on behalf of the GMACI Insurers, as cedent, and the Company, ACP Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, receive 50% of the net premium of the GMACI Insurers and assume 50% of the related net losses. The Company has a 20% participation in the Personal Lines Quota Share, by which it receives 10% of the net premiums of the personal lines business and assumes 10% of the related net losses. The Personal Lines Quota Share, which had an initial term of three years was renewed through March 1, 2016 and will renew automatically for successive three-year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. In addition, either party is entitled to terminate on 60 days' written notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of the Company or the GMACI Insurers, run-off, or a reduction of 50% or more of the shareholders' equity. The GMACI Insurers also may terminate on nine months' written notice following the effective date of an initial public offering or private placement of stock by ACAC or a subsidiary. The Personal Lines Quota Share, as amended on October 1, 2012, provides that the reinsurers pay a provisional ceding commission equal to 32.0% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.0% or less and a minimum of 30.0% if the loss ratio is 64.5% or higher. The Personal Lines Quota Share is subject to a premium cap that limited the premium that could be ceded by the GMACI Insurers to TIC to $133,100 during calendar year 2012 to the extent TIC determined, in good faith, that it could not assume additional premium. The premium cap increases by 10% per annum thereafter. As a result of this agreement, the Company assumed $118,141, $102,598 and $82,295 of business from the GMACI Insurers during the years ended December 31, 2012, 2011 and 2010, respectively.

Master Services Agreement

The Company provides ACAC and its affiliates information technology development services in connection with the development and licensing of a policy management system at a cost that is currently 1.25% of gross premiums written of ACAC and its affiliates plus the Company's costs for development and support services. In addition, the Company provides ACAC and its affiliates printing and mailing services at a per piece cost for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies the Company processes for ACAC and its affiliates on the policy management system. The Company recorded approximately $14,444, $4,022 and $2,022 of fee income for the years ended December 31, 2012, 2011 and 2010, respectively, related to this agreement.

Asset Management Agreement

The Company manages the assets of ACAC and its subsidiaries for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1,000,000 or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1,000,000. The Company currently manages approximately $730,000 of assets as of December 31, 2012 related to this agreement. As a result of this agreement, the Company earned approximately $1,503, $1,550 and $1,456 of investment management fees for the years ended December 31, 2012, 2011 and 2010, respectively.

As a result of the above service agreements with ACAC, the Company recorded fees totaling approximately $15,947, $5,572 and $3,478 for the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, the outstanding balance payable by ACAC related to these service fees and reimbursable costs was approximately $5,391.

800 Superior LLC

In August 2011, the Company formed 800 Superior, LLC with a subsidiary of ACAC for the purposes of acquiring an office building in Cleveland, Ohio. The Company and ACAC each have a fifty percent ownership interest in 800 Superior, LLC. The cost of the building was approximately $7,500. The Company has been appointed managing member of the LLC. Additionally in conjunction with the Company's 21.25% ownership percentage of ACAC, the Company ultimately receives 60.6% of the profits and losses of the LLC. As such, in accordance with ASC 810-10, *Consolidation,* the Company has been deemed the primary beneficiary and, therefore, consolidates this entity.

Additionally in 2012, ACAC entered into an office lease with 800 Superior, LLC for approximately 134,000 square feet. The lease period is for 15 years and ACAC paid 800 Superior, LLC $1,391 for the year ended December 31, 2012. Lastly, as discussed in Note 20. "New Market Tax Credit," 800 Superior, LLC, the Company and ACAC participated in a financing transaction related to capital improvements on the office building. As part of that transaction, ACAC and the Company entered into an agreement related to the payment and performance guaranties provided by the Company to the various parties to the financing transaction whereby ACAC has agreed to contribute 50% toward any payments the Company is required to make pursuant to the guaranties.

Lease Agreements

In January 2008, the Company entered into an amended agreement for its office space at 59 Maiden Lane in New York, New York from 59 Maiden Lane Associates, LLC, an entity that is wholly-owned by Michael Karfunkel and George Karfunkel. The lease was amended such that it increased the leased space to 14,807 square feet and extended the lease through December 31, 2017. The Company's Audit Committee reviewed and approved the extension of the lease. The Company paid approximately $733, $665 and $689 for the lease for the years ended December 31, 2012, 2011 and 2010, respectively.

In January 2011, the Company entered into an amended agreement to lease 9,030 square feet of office space in Chicago, Illinois from 33 West Monroe Associates, LLC, an entity that is wholly-owned by entities controlled by Michael Karfunkel and George Karfunkel. The Company paid approximately $223, $285 and $257 for the years ended December 31, 2012, 2011 and 2010, respectively, pursuant to this lease. This agreement was terminated in November 2012 when the Company entered into a new agreement to lease 15,765 square feet of office space at a different location in Chicago, Illinois. This new lease is with 135 LaSalle Property, LLC, another entity that is wholly-owned by entities controlled by Michael Karfunkel and George Karfunkel. The lease extends through November 30, 2022. The Company did not make any payments during the year ended December 31, 2012 pursuant to this new lease agreement.

Management Agreement with ACP Re, Ltd.

The Company provides investment management services and accounting and administrative services to ACP Re, Ltd. for a monthly fee of $10 and (i) an annual rate of 0.20% of the average value of ACP Re, Ltd.'s invested assets for the preceding calendar quarter if the average value of such assets for the quarter was $1,000,000 or less, or (ii) an annual rate of 0.15% of the average value of ACP Re, Ltd.'s invested assets for the preceding calendar quarter if the average value of such assets for the quarter was greater than $1,000,000. The Company currently manages approximately $260,000 of assets as of December 31, 2012. The Company entered into this management agreement in March 2012, and it covers all services rendered prior to the execution of the agreement. The Company recorded approximately $638 for these services for the year ended December 31, 2012.

Use of Company Aircraft

The Company's wholly-owned subsidiary, AmTrust Underwriters, Inc. ("AUI"), is a party to an aircraft time share agreement with each of Maiden and ACAC. The agreements provide for payment to AUI for usage of its company-owned aircraft and covers actual expenses incurred and permissible under federal aviation regulations, including travel and lodging expenses of the crew, in-flight catering, flight planning and weather contract services, ground transportation, fuel, landing and hanger fees, airport taxes, among others. AUI does not charge Maiden or ACAC for the fixed costs that would be incurred in any event to operate the aircraft (for example, aircraft purchase costs, insurance and flight crew salaries). During the years ended December 31, 2012 and 2011, Maiden paid AUI $59 and $74, respectively, and ACAC paid AUI $165 and $185, respectively, for the use of AUI's aircraft under these agreements.

In addition, for personal travel, Mr. Zyskind, the Company's President and Chief Executive Officer and Michael Karfunkel, the Chairman of the Board, each entered into an aircraft reimbursement agreement with AUI and, since entering into such agreement, has fully reimbursed AUI for the incremental cost billed by AUI for their personal use of AUI's aircraft. During the years ended December 31, 2012 and 2011, Mr Zyskind reimbursed the Company $192 and $200, respectively. Mr. Karfunkel did not use the aircraft for personal use during the year ended December 31, 2012. During the year ended December 31, 2011, Mr. Karfunkel reimbursed the Company $30.

14. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses:

(Amounts in Thousands)	2012	2011	2010
Policy acquisition expenses	$ 375,615	$ 256,464	$ 180,757
Salaries and benefits	155,441	119,171	97,934
Other insurance general and administrative expense	12,657	22,769	24,118
	$ 543,713	$ 398,404	$ 302,809

15. Share Based Compensation

The Company's 2010 Omnibus Incentive Plan (the “Plan”), which permits the Company to grant to officers, employees and non-employee directors incentive compensation directly linked to the price of the Company’s stock, authorizes up to an aggregate of 6,650,062 shares of Company stock for awards of options to purchase shares of the Company’s common stock, restricted stock, restricted stock units (“RSU”), performance share units ("PSU") or appreciation rights. Shares used may be either newly issued shares or treasury shares or both. The aggregate number of shares of common stock for which awards may be issued may not exceed 6,650,062 shares, subject to the authority of the Company’s board of directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting the Company’s common stock. As of December 31, 2012, approximately 5,000,000 shares of Company common stock remained available for grants under the Plan.

The Company recognizes compensation expense under FASB ASC 718-10-25 for its share-based payments based on the fair value of the awards. The Company grants stock options at prices equal to the closing stock price of the Company’s stock on the dates the options are granted. The options have a term of 10 years from the date of grant and vest primarily in equal annual installments over the four years period following the date of grant for employee options. The Company uses the simplified method in determining the expected life. Employees have three months after the employment relationship ends to exercise all vested options. The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. The Company grants restricted shares, RSUs and PSUs with a grant date value equal to the closing stock price of the Company's stock on the dates the shares or units are granted and the restricted shares and RSUs vest over a period of two to four years, while PSUs vest based on terms of the awards.

The Company paid a ten percent stock dividend during 2012. At the dividend date, all options outstanding were adjusted by ten percent and their respective exercise prices were reduced by ten percent, which ultimately resulted in each outstanding share having the same fair value immediately prior to and subsequent to the dividend date. Therefore, the Company did not record any additional compensation expense as a result of the stock dividend. The Company also adjusted outstanding RSUs, unvested restricted stock and PSUs, resulting in no additional compensation expense.

The following information and tables below for stock options, restricted stock and RSUs have been adjusted retroactively in all periods presented. The following schedule shows all options granted, exercised, and expired under the Plan for the years ended December 31, 2012, 2011 and 2010:

	2012		2011		2010	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,136,466	$ 9.96	4,572,557	$ 9.48	4,644,300	$ 9.18
Granted	41,800	25.99	258,500	15.30	303,878	12.95
Exercised	(749,800)	8.75	(578,162)	8.36	(221,003)	7.36
Forfeited	(86,923)	12.99	(116,429)	10.87	(154,618)	10.34
Outstanding at end of year	3,341,543	$ 10.35	4,136,466	$ 9.96	4,572,557	$ 9.48

The fair value was estimated at the date of grant with the following weighted average assumptions for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Volatility	32.68%	32.75%	31.43%
Risk-free interest rate	0.73%	2.11%	1.92%
Weighted average expected lives in years	6.25	6.25	6.25
Dividend rate	1.37%	1.65%	1.98%
Forfeiture rate	0.50%	0.50%	0.50%

The weighted average grant date fair value of options granted was $8.51, $6.07 and $3.60 during 2012, 2011 and 2010, respectively. As of December 31, 2012 and 2011, all option grants outstanding had an approximate weighted average remaining life of 4.9 and 5.8 years, respectively. As of December 31, 2012 and 2011, there were approximately 3,091,000 shares and 3,471,000 shares, respectively, with a weighted average exercise price of $9.89 and $9.33, respectively, which were exercisable.

A summary of the Company's restricted stock and RSU activity for the years ended December 31, 2012, 2011 and 2010 is shown below:

	2012		2011		2010	
	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value
Non-vested at beginning of year	320,351	$ 16.65	153,332	$ 12.76	—	$ —
Granted	580,103	25.35	224,704	18.53	154,916	12.76
Vested	(92,412)	16.17	(48,651)	12.80	—	—
Forfeited	(685)	22.94	(9,034)	18.17	(1,584)	12.65
Non-vested at end of year	807,357	$ 22.95	320,351	$ 16.65	153,332	$ 12.76

The Company's Compensation Committee granted 250,000 PSUs during 2012. PSUs are conditional grants of a specified maximum number of common shares. In general, grants are earned, subject to the attainment of pre-specified performance goals at the end of a pre-determined period. Results that significantly exceed pre-specified targets can result in a performance share payout of up to 150% of granted shares whereas results significantly below the target result in no payout. The performance period for this grant is the two-year period ended December 31, 2013. If earned, the shares will vest 50% on December 31, 2014 and 50% on December 31, 2015. The fair value of these PSUs on the date of grant was $7,365.

Compensation expense for all share-based payments under ASC 718-10-30 was approximately $7,172, $5,571 and $3,386 for the years ended December 31, 2012, 2011 and 2010, respectively. The Company had approximately $20,665, $5,346 and $4,189 of unrecognized compensation cost related to all share based compensation as of December 31, 2012, 2011 and 2010, respectively.

The intrinsic value of stock options exercised during 2012, 2011 and 2010 was $13,615, $6,957 and $1,286, respectively. The intrinsic value of stock options that were outstanding as December 31, 2012 and 2011 was $61,273 and $48,247, respectively.

Cash received from options exercised was $8,873, $5,425 and $1,770 during 2012, 2011 and 2010 respectively.The excess tax benefit from award exercises was approximately $2,500 and $700 for the years ended December 31, 2012 and 2011.

16. Income Taxes

The provision for income taxes consists of the following for the years ended December 31, 2012, 2011 and 2010:

(Amounts in Thousands) Income Tax Provision (Benefit)	2012	2011	2010
Current expense (benefit)			
Federal	$ 6,718	$ 11,147	$ 20,693
Foreign	30,034	21,345	9,165
Total current tax expense	36,752	32,492	29,858
Deferred expense (benefit)			
Federal	$ 9,603	$ 40,462	$ 35,623
Foreign	600	(30,582)	(18,428)
Total deferred tax expense	10,203	9,880	17,195
Total income tax expense	$ 46,955	$ 42,372	$ 47,053

The following table is a reconciliation of the Company's statutory income tax expense to its effective tax rate for the years ended December 31, 2012, 2011 and 2010:

(Amounts in Thousands)	2012	2011	2010
Income before equity in earnings (loss) of unconsolidated subsidiaries	$ 222,520	$ 228,654	$ 171,401
Tax at federal statutory rate of 35%	$ 77,882	$ 80,029	$ 59,990
Tax effects resulting from:			
Net income of non-includible foreign subsidiaries	(27,643)	(28,202)	(19,730)
Other, net	(3,284)	(9,455)	6,793
	$ 46,955	$ 42,372	$ 47,053
Effective tax rate	21.1%	18.5%	27.5%

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of December 31, 2012 and 2011 are shown below:

(Amounts in Thousands)	2012	2011
Deferred tax assets:		
Unearned premiums	$ 67,163	$ 55,140
Ceding commission	63,939	49,882
Other	33,401	10,624
Deferred compensation	6,217	4,837
Bad debt	5,726	4,904
Net operating loss carryforward	2,282	14,579
Unrealized loss on investments	—	5,384
	$ 178,728	$ 145,350
Deferred tax liabilities:		
Deferred acquisition costs	$ (186,133)	$ (147,819)
Losses and LAE reserves	(90,174)	(56,869)
Intangible assets	(43,556)	(27,640)
Unrealized gain on investments	(34,586)	—
Other	(22,797)	(6,299)
Depreciation	(21,021)	(12,379)
Equity results which cannot be liquidated tax free	(2,038)	(8,796)
Accrual market discount	(1,968)	(2,062)
Cash surrender value on insurance	(1,939)	(1,882)
	(404,212)	(263,746)
Deferred tax liability, net	$ (225,484)	$ (118,396)

The Company’s management believes that it will realize the benefits of its deferred tax assets, which are included as a component of the Company's net deferred tax liability, and accordingly, no valuation allowance has been recorded for the periods presented. The earnings of certain of the Company's foreign subsidiaries have been indefinitely reinvested in foreign operations. Therefore, no provision has been made for any U.S. taxes or foreign withholding taxes that may be applicable upon any repatriation or disposition. The determination of any unrecognized deferred tax liability for temporary differences related to investments in certain of the Company’s foreign subsidiaries is not practicable. At December 31, 2012 and 2011, the financial reporting basis in excess of the tax basis for which no deferred taxes have been recognized was approximately $296,000 and $223,300, respectively. The deferred tax liability related to loss and LAE reserves of $90,174 includes a deferred tax liability of $123,699 for equalization reserves which were acquired as part of the AmTrust Re 2007, AmTrust Re Alpha, AmTrust Re Kappa, AmTrust Re Zeta, AmTrust Re Theta and AmTrust Re Epsilon acquisitions.

The Company’s major taxing jurisdictions include the U.S. (federal and state), the United Kingdom and Ireland. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the Company’s statute of limitation is open for tax years ended December 31, 2008 and forward. As permitted by FASB ASC 740-10, the Company adopted an accounting policy to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. Previously, the Company’s policy was to classify interest and penalties as an operating expense in arriving at pre-tax income. At December 31, 2012, the Company does not have any accrued interest and penalties related to unrecognized tax benefits in accordance with FASB ASC 740-10.

A reconciliation of the total amounts of gross unrecognized tax benefits is as follows:

(Amounts in Thousands)	2012	2011
Gross unrecognized tax benefit as of January 1	$ —	$ 1,017
Decreases in tax positions for prior years	—	(1,017)
Increases in tax positions for prior years	—	—
Decreases in tax positions for current year	—	—
Increases in tax positions for current year	—	—
Lapse in statute of limitations	—	—
Settlements	—	—
Gross unrecognized tax benefits as of December 31	$ —	$ —

Listed below are the tax years that remain subject to examination by major tax jurisdictions:

	Open Tax Years
Major tax jurisdictions:	
United States	2009-2012
United Kingdom	2010-2012
Ireland	2008-2012

17. Employee Benefit Plans

The Company sponsors a defined contribution pension plan. Participation in this plan is available to a majority of employees. Contributions to this plan were based on a percentage of employee contributions. The cost of this plan for the Company was approximately $1,919, $1,397 and $1,172 for the years ended December 31, 2012, 2011 and 2010, respectively.

18. Earnings per Share

Effective January 1, 2009, the Company adopted ASC subtopic 260-10, *Determining Whether Instruments Granted in Share-Based Payments Transactions Are Participating Securities*. ASC 260-10 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and are to be included in the computation of earnings per share under the two-class method. The Company's unvested restricted shares contain rights to receive nonforfeitable dividends and are participating securities, requiring the two-class method of computing earnings per share.

The Company paid a ten percent stock dividend during year ended December 31, 2012. As such, the weighted average number of shares used for basic and diluted earnings per share have been adjusted retroactively for all periods presented.

The following, is a summary of the elements used in calculating basic and diluted earnings per share for the years ended December 31, 2012, 2011 and 2010:

(Amounts in Thousands, except for earnings per share)	2012	2011	2010
Basics earnings per share:			
Net income attributable to AmTrust Financial Services, Inc. shareholders	$ 177,987	$ 170,434	$ 142,465
Less: Net income allocated to participating securities and redeemable non-controlling interest	706	111	81
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$ 177,281	$ 170,323	$ 142,384
Weighted average shares outstanding – basic	66,764	65,954	65,570
Less: Weighted average participating shares outstanding	265	39	38
Weighted average common shares outstanding – basic	66,499	65,915	65,532
Net income per AmTrust Financial Services, Inc. common shares – basic	$ 2.67	$ 2.58	$ 2.17
Diluted earnings per share:			
Net income attributable to AmTrust Financial Services, Inc. shareholders	$ 177,987	$ 170,434	$ 142,465
Less: Net income allocated to participating securities and redeemable non-controlling interest	706	111	81
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$ 177,281	$ 170,323	$ 142,384
Weighted average common shares outstanding – basic	66,499	65,915	65,532
Plus: Dilutive effect of stock options, other	2,351	1,746	894
Weighted average common shares outstanding – dilutive	68,850	67,661	66,426
Net income per AmTrust Financial Services, Inc. common shares – diluted	$ 2.57	$ 2.52	$ 2.14

As of December 31, 2012, there were less than 10,000 anti-dilutive securities excluded from diluted earnings per share.

19. Accumulated Other Comprehensive Income (Loss)

(Amounts in Thousands)	Foreign Currency Items	Unrealized Gains (Losses) on Investments	Interest Rate Swap Hedge	Accumulated Other Comprehensive Income
Balance, December 31, 2009	$ (7,456)	$ (9,564)	$ —	$ (17,020)
Current period change	(7,415)	33,191	—	25,776
Income tax benefit (expense)	2,595	(11,617)	—	(9,022)
Balance, December 31, 2010	(12,276)	12,010	—	(266)
Current period change	(7,407)	(4,058)	(3,507)	(14,972)
Income tax benefit	2,592	1,420	1,227	5,239
Balance, December 31, 2011	(17,091)	9,372	(2,280)	(9,999)
Current period change	10,353	104,973	(1,128)	114,198
Income tax benefit (expense)	(3,623)	(36,740)	395	(39,968)
Balance, December 31, 2012	$ (10,361)	$ 77,605	$ (3,013)	$ 64,231

20. New Market Tax Credit

In September 2012, the Company's subsidiary, 800 Superior, LLC (an entity owned equally by the Company and ACAC) received $19,400 in net proceeds from a financing transaction the Company and ACAC entered into with Key Community Development Corporation (“KCDC”) related to a capital improvement project for an office building in Cleveland, Ohio owned by 800 Superior, LLC. The Company, ACAC and KCDC collectively made capital contributions (net of allocation fees) and loans to 800 Superior NMTC Investment Fund II and 800 Superior NMTC Investment Fund I LLC (collectively, the “Investment Funds”) under a qualified New Markets Tax Credit (“NMTC”) program. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (the “Act”) and is intended to induce capital investment in qualified lower income communities. The Act permits taxpayers to claim credits against their federal income taxes for up to 39% of qualified investments in the equity of community development entities (“CDEs”). CDEs are privately managed investment institutions that are certified to make qualified low-income community investments (“QLICIs”).

In addition to the capital contributions and loans from the Company, ACAC and KCDC, as part of the transaction, the Investment Funds received, directly and indirectly, proceeds of approximately $8,000 through two loans originating from state and local governments of Ohio. These loans are each for a period of 15 years and have an average interest rate of 1.7% per annum.

The Investment Funds then contributed the loan proceeds and capital contributions of $19,400 to two CDEs, which, in turn, loaned the funds on similar terms to 800 Superior, LLC. The proceeds of the loans from the CDEs (including loans representing the capital contribution made by KCDC, net of allocation fees) will be used to fund the capital improvement project. As collateral for these loans, the Company has granted a security interest in the assets acquired with the loan proceeds.

The Company and ACAC are each entitled to receive an equal portion of 49% of the benefits derived from the NMTCs generated by 800 Superior Investment Fund II LLC, while KCDC is entitled to the remaining 51%. The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. During this seven years compliance period, the entities involved are required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in the projected tax benefits not being realized and, therefore, could require the Company to indemnify KCDC for any loss or recapture of NMTCs related to the financing until such time as the obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement. In addition, this transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase KCDC's interest in the Investment Funds in September 2019 at the end of the recapture period. The Company believes that KCDC will exercise its put option and, therefore, attributed an insignificant value to the put/call.

The Company has determined that the Investment Funds are variable interest entities (“VIEs”). The ongoing activities of the Investment Funds - collecting and remitting interest and fees and NMTC compliance - were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the Investment Funds. When determining whether to consolidate the Investment Funds, Company management considered the contractual arrangements that obligate it to deliver tax benefits and provide various other guarantees to the structure, KCDC's lack of a material interest in the underling economics of the project, and the fact that the Company is obligated to absorb losses of the Investment Funds. Also, the Company has a 21.25% ownership in ACAC. The Company concluded that it was the primary beneficiary and consolidated the Investment Funds, as VIEs, in accordance with the accounting standard for consolidation. KCDC's contribution, net of syndication fees, is included as an accrued liability in the accompanying condensed consolidated balance sheets. Direct costs incurred in structuring the financing arrangement are deferred and will be recognized as expense over the term of the loans. Incremental costs to maintain the structure during the compliance period are recognized as incurred.

21. Commitments and Contingencies

Litigation

The Company’s insurance subsidiaries are named as defendants in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the loss and LAE reserves. The Company’s management believes the resolution of those actions will not have a material adverse effect on the Company’s financial position or results of operations.

As previously described in the Company's periodic reports, the Company's subsidiary Warrantech Corporation (“Warrantech”) was involved in a number of disputes that related to U.S. Fidelis, a direct marketer of vehicle service contracts that filed a petition for Chapter 11 bankruptcy protection in 2010 in United States Bankruptcy Court (the “Bankruptcy Proceeding”). In connection with the plan of liquidation for U.S. Fidelis (the “Plan”), Warrantech, the Unsecured Creditors Committee of U.S. Fidelis, Mepco Finance Corporation (“Mepco”), and four states, by and through the offices of their respective Attorneys General, each agreed to support the Plan throughout the Bankruptcy Proceeding and to cooperate to the fullest extent in obtaining confirmation of the Plan. In 2012, the Bankruptcy Court entered an order approving the Plan with an effective date of September 12, 2012. Upon confirmation, Warrantech became obligated to pay $4,800 to Mepco, $1,400 to the liquidating trustee and $1,100 to the U.S. Fidelis Consumer Restitution Fund (as described in the Plan). The Plan also provided the Warrantech Released Parties (as described in the Plan) with releases from certain consumer claims and claims by States Attorneys General and Governmental Units (as described in the Plan).

As of December 31, 2012, the Company is not involved presently in any material litigation nor, to our knowledge, is any material litigation threatened against us or our properties.

Lease Commitments

The Company is obligated under approximately 51 leases for office space expiring at various dates through 2032. Future minimum lease payments as of December 31, 2012 under non-cancellable operating leases for each of the next five years are approximately as follows:

(Amounts in Thousands)	
2013	$ 10,753
2014	10,200
2015	9,527
2016	8,973
2017	8,502
2018 and Thereafter	46,756
	$ 94,711

Rent expense for the years ended December 31, 2012, 2011 and 2010 was $11,518, $10,451 and $8,490, respectively.

Employment Agreements

The Company has employment agreements with approximately 28 of its key executives and employees. The agreements terminate on varying dates through 2020, contain annual minimum levels of compensation, and contain bonuses based on the Company's achieving certain financial targets. The annual future minimums in the aggregate are as follows through 2020:

(Amounts in Thousands)	
2013	$ 9,753
2014	7,656
2015	4,765
2016	3,206
2017	1,552
2018 and Thereafter	1,606
	$ 28,538

22. Statutory Financial Data, Risk Based Capital and Dividend Restrictions

The Company's insurance subsidiaries file financial statements in accordance with statutory accounting practices ("SAP") prescribed or permitted by domestic or foreign insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between domestic and foreign jurisdictions. The principal differences relate to (1) acquisition costs incurred in connection with acquiring new business which are charged to expense under SAP but under GAAP are deferred and amortized as the related premiums are earned; (2) limitation on net deferred tax assets created by the tax effects of temporary differences; (3) unpaid losses and loss expense, and unearned premium reserves are presented gross of reinsurance with a corresponding asset recorded; and (4) fixed maturity portfolios that are carried at fair value and changes in fair value are reflected directly in unassigned surplus, net of related deferred taxes.

Property and casualty insurance companies in the United States are subject to certain Risk-Based Capital ("RBC") requirements as specified by the National Association of Insurance Commissioners. Under such requirements, the amount of Statutory Capital and Surplus maintained by a property and casualty insurance company is to be determined on various risk factors. As of December 31, 2012 and 2011, the Statutory Capital and Surplus of the Company's eight insurance subsidiaries domiciled in the United States exceeded the RBC requirements.

Statutory capital and surplus and required statutory capital and surplus for the Company's insurance subsidiaries as reported to regulatory authorities as of December 31, 2012 and 2011 were approximately as follows:

	2012		2011	
(Amounts in Thousands)	Statutory Capital and Surplus	Required Statutory Capital and Surplus (1)	Statutory Capital and Surplus	Required Statutory Capital and Surplus (1)
TIC (domestic)	206,770	79,825	193,036	84,795
RIC (domestic)	49,165	18,018	46,107	14,082
WIC (domestic)	114,503	56,120	82,580	38,591
AIIC (domestic)	69,314	14,421	72,034	11,523
SNIC (domestic)	51,194	18,307	31,493	9,262
MCIC (domestic)	13,420	2,363	12,512	1,957
ALIC (domestic)	2,125	304	2,128	324
AICK (domestic)	12,987	4,397	12,852	4,094
AEL (United Kingdom)	197,543	157,246	132,082	110,654
AIU (Ireland)	136,437	38,020	105,196	28,093
AII (Bermuda)	498,589	140,500	369,336	105,510

(1) For the Company's U.S. insurance companies and AIU, the amount is equal to 1.5 times of authorized control level risk based capital as defined by NAIC or the minimum amount required to avoid regulatory oversight. For AEL and AII, the amount is equal to the minimum capital required by their respective country's regulatory authority.

Statutory net income for the insurance subsidiaries for the years ended December 31, 2012, 2011 and 2010 as reported to regulatory authorities were approximately as follows:

(Amounts in Thousands)	2012	2011	2010
TIC (domestic)	$ 45,621	$ 1,721	$ 11,473
RIC (domestic)	1,129	903	4,445
WIC (domestic)	9,263	5,590	5,234
AIIC (domestic)	5,570	13,546	10,988
SNIC (domestic)	10,624	3,338	1,372
MCIC (domestic)	1,519	936	793
ALIC (domestic)	15	—	8
AICK (domestic)	1,198	22	836
AEL (United Kingdom)	54,967	34,944	14,161
AIU (Ireland)	20,767	39,927	22,117
AII (Bermuda)	107,980	120,904	52,312

The Company's insurance subsidiaries are subject to statutory and regulatory restrictions applicable to insurance companies, and imposed by the states of domicile, which limit the amount of cash dividends or distributions that they may pay to approximately $403,100 and $306,100 as of December 31, 2012 and 2011, respectively. During 2012, 2011 and 2010, the Company received a dividend of approximately $7,200, $5,800 and $5,000, respectively, from one of its subsidiaries. In addition to the restrictions on the insurance subsidiaries, there are also restrictions in the Parent company's debt instruments, which require dividends to be limited to an amount that, after giving immediate effect to such dividend payments on a pro forma basis, would allow the Company to remain in compliance with its debt covenants. There were no other material restrictions on net assets in place as of December 31, 2012. Accordingly, the total amount of unrestricted net assets for consolidated subsidiaries as of December 31, 2012 is $403,100.

23. Geographic Information

Three of the Company's insurance subsidiaries (AII, AIU and AEL) operate outside the United States. Their assets and liabilities are located principally in the countries where the insurance risks are written or assumed. For 2012, 29% of the Company's gross written premiums related to foreign risks, of which 38% were written from Italy. For both 2011 and 2010, 34% of the Company's gross written premiums related to foreign risks, of which 37% were written from the United Kingdom. As of December 31, 2012 and 2011, approximately 50% and 46%, respectively, of the Company's consolidated assets were located outside the United States. For the years ended 2012, 2011 and 2010, approximately 75%, 76% and 70%, respectively, of the consolidated revenues earned by the Company were located in or derived from foreign countries.

The domestic and foreign components of Income before income tax and equity in earnings (loss) of unconsolidated subsidiaries for the years ended December 31, 2012, 2011 and 2010 are as follows:

(Amounts in Thousands)	2012	2011	2010
Domestic	$ 79,638	$ 24,328	$ 65,882
Foreign	142,882	204,326	105,519
	$ 222,520	$ 228,654	$ 171,401

The following table summarizes the Company's operations by major geographic segment:

(Amounts in Thousands)	Domestic	Bermuda	Other Foreign
December 31, 2012:			
Revenue	$ 468,130	$ 1,175,423	$ 221,603
Property and equipment	72,899	—	3,034
December 31, 2011:			
Revenue	$ 323,089	$ 865,262	$ 169,406
Property and equipment	58,682	—	2,871
December 31, 2010:			
Revenue	$ 299,339	$ 603,827	$ 99,291
Property and equipment	30,340	—	549

24. Segments

The Company currently operates four business segments, Small Commercial Business; Specialty Risk and Extended Warranty; Specialty Program and Personal Lines Reinsurance. The "Corporate & Other" segment represents the activities of the holding company as well as a portion of service and fee revenue. In determining total assets (excluding cash and invested assets) by segment, the Company identifies those assets that are attributable to a particular segment such as deferred acquisition cost, reinsurance recoverable, goodwill, intangible assets and prepaid reinsurance while the remaining assets are allocated based on gross written premium by segment. In determining cash and invested assets by segment, the Company matches certain identifiable liabilities such as unearned premium and loss and loss adjustment expense reserves by segment. The remaining cash and invested assets are then allocated based on gross written premium by segment. Investment income and realized gains (losses) are determined by calculating an overall annual return on cash and invested assets and applying that overall return to the cash and invested assets by segment. Ceding commission revenue is allocated to each segment based on that segment's

proportionate share of the Company's overall acquisition costs. Interest expense is allocated based on gross written premium by segment. Income taxes are allocated on a pro-rata basis based on the Company's effective tax rate. Additionally, management reviews the performance of underwriting income in assessing the performance of and making decisions regarding the allocation of resources to the segments. Underwriting income excludes, primarily, service and fee revenue, investment income and other revenues, other expenses, interest expense and income taxes. Management believes that providing this information in this manner is essential to providing Company's shareholders with an understanding of the Company's business and operating performance.

During the years ended December 31, 2012 and 2011, the Company' Specialty Risk and Extended Warranty segment derived over ten percent of its total revenue from one broker. In 2012, the Company' Specialty Program segment derived over ten percent of its total revenue from two brokers and in 2011 and 2010, the segment derived over ten percent of its total revenue from one broker.

The following tables summarize business segments as follows for 2012, 2011 and 2010:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Year Ended December 31, 2012:						
Gross premium written	$ 933,740	$ 1,118,710	$ 578,735	$ 118,141	—	$ 2,749,326
Net premium written	$ 474,381	$ 624,555	$ 430,960	$ 118,141	$ —	$ 1,648,037
Change in unearned premium	(57,816)	(82,982)	(82,392)	(5,995)	—	(229,185)
Net earned premium	416,565	541,573	348,568	112,146	—	1,418,852
Ceding commission – primarily related party	69,896	65,056	62,030	—	—	196,982
Loss and loss adjustment expense	(270,843)	(341,196)	(238,302)	(72,334)	—	(922,675)
Acquisition costs and other underwriting expenses	(180,791)	(168,273)	(160,445)	(34,204)	—	(543,713)
	(451,634)	(509,469)	(398,747)	(106,538)	—	(1,466,388)
Underwriting income	34,827	97,160	11,851	5,608	—	149,446
Service, fee and other revenues	53,886	86,672	1,342	—	30,274	172,174
Investment income and realized gain (loss)	27,217	30,952	16,362	2,617	—	77,148
Other expenses	(54,788)	(65,642)	(33,958)	(6,932)	—	(161,320)
Interest expense	(9,682)	(11,600)	(6,001)	(1,225)	—	(28,508)
Foreign currency loss	—	(242)	—	—	—	(242)
Gain on life settlement contracts	4,694	5,624	2,910	594	—	13,822
Provision for income taxes	(11,374)	(28,950)	1,518	(134)	(8,015)	(46,955)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	—	9,295	9,295
Non-controlling interest	(2,334)	(2,797)	(1,447)	(295)	—	(6,873)
Net income attributable to AmTrust Financial Services, Inc.	$ 42,446	$ 111,177	$ (7,423)	$ 233	$ 31,554	$ 177,987

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Year Ended December 31, 2011:						
Gross premium written	$ 609,822	$ 1,056,511	$ 381,541	$ 102,598	—	$ 2,150,472
Net premium written	$ 355,721	$ 615,563	$ 202,715	$ 102,598	$ —	$ 1,276,597
Change in unearned premium	(35,455)	(168,798)	(31,340)	(4,143)	—	(239,736)
Net earned premium	320,266	446,765	171,375	98,455	—	1,036,861
Ceding commission – primarily related party	62,093	57,648	34,212	—	—	153,953
Loss and loss adjustment expense	(201,921)	(297,501)	(114,685)	(64,226)	—	(678,333)
Acquisition costs and other underwriting expenses	(148,041)	(137,442)	(81,568)	(31,353)	—	(398,404)
	(349,962)	(434,943)	(196,253)	(95,579)	—	(1,076,737)
Underwriting income	32,397	69,470	9,334	2,876	—	114,077
Service, fee and other revenues	20,887	67,312	17	—	20,444	108,660
Investment income and realized gain (loss)	23,385	22,708	10,104	2,086	—	58,283
Other expenses	(25,000)	(43,354)	(15,143)	(3,114)	—	(86,611)
Interest expense	(4,641)	(8,049)	(2,811)	(578)	—	(16,079)
Foreign currency gain	—	(2,418)	—	—	—	(2,418)
Gain on life settlement contracts	13,535	23,472	8,199	1,686	—	46,892
Acquisition gain on purchase	5,850	—	—	—	—	5,850
Provision for income taxes	(12,050)	(23,431)	(1,760)	(536)	(4,595)	(42,372)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	—	4,882	4,882
Non-controlling interest	(5,984)	(10,377)	(3,624)	(745)	—	(20,730)
Net income attributable to AmTrust Financial Services, Inc.	$ 48,379	$ 95,333	$ 4,316	$ 1,675	$ 20,731	$ 170,434

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Year Ended December 31, 2010:						
Gross premium written	$ 465,951	$ 748,525	$ 264,051	$ 82,295	$ —	$ 1,560,822
Net premium written	$ 243,146	$ 362,100	$ 139,685	$ 82,295	$ —	$ 827,226
Change in unearned premium	9,296	(58,517)	568	(32,914)	—	(81,567)
Net earned premium	252,442	303,583	140,253	49,381		745,659
Ceding commission – primarily related party	66,282	48,015	23,964	—	—	138,261
Loss and loss adjustment expense	(154,442)	(191,149)	(94,261)	(31,629)	—	(471,481)
Acquisition costs and other underwriting expenses	(128,142)	(98,547)	(60,071)	(16,049)	—	(302,809)
	(282,584)	(289,696)	(154,332)	(47,678)		(774,290)
Underwriting income	36,140	61,902	9,885	1,703	—	109,630
Service, fee and other revenues	19,696	29,729	—	—	12,642	62,067
Investment income and realized gain (loss)	21,950	20,339	11,617	2,564	—	56,470
Other expenses	(17,966)	(24,443)	(10,397)	(3,597)	—	(56,403)
Interest expense	(4,110)	(5,591)	(2,378)	(823)	—	(12,902)
Foreign currency gain	—	684	—	—	—	684
Gain on life settlement contracts	3,776	5,138	2,185	756	—	11,855
Provision for income taxes	(14,382)	(21,216)	(2,638)	(146)	(8,671)	(47,053)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	—	23,226	23,226
Non-controlling interest	(1,627)	(2,214)	(942)	(326)	—	(5,109)
Net income attributable to AmTrust Financial Services, Inc.	$ 43,477	$ 64,328	$ 7,332	$ 131	$ 27,197	$ 142,465

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and other	Total
As of December 31, 2012:						
Fixed assets	$ 25,789	$ 30,897	$ 15,984	$ 3,263	$ —	$ 75,933
Goodwill and intangible assets	245,330	245,139	24,498	—	—	514,967
Total assets	2,778,136	3,127,543	1,330,005	181,553	—	7,417,237
As of December 31, 2011:						
Fixed assets	$ 17,767	$ 30,811	$ 10,762	$ 2,213	$ —	$ 61,553
Goodwill and intangible assets	182,146	167,782	22,858	—	—	372,786
Total assets	2,204,595	2,482,018	912,476	133,429	—	5,732,518

25. Equity Investment in Unconsolidated Subsidiary

The following table summarizes total assets and total liabilities as of December 31, 2012 and 2011, and the results of operations for the Company's unconsolidated equity method investment in ACAC for the years ended December 31, 2012, 2011 and 2010:

(Amounts in Thousands)	As of December 31, 2012	2011
Balance sheet data:		
Investments	$ 798,562	$ 782,711
Premiums and other receivables	518,399	441,817
Reinsurance recoverable – unpaid loss	991,837	775,444
Total assets	2,778,030	2,403,477
Reserve for insurance loss and loss adjustment expenses	1,284,075	1,053,137
Unearned insurance premiums and revenue	488,598	449,598
Total liabilities	2,343,317	2,026,179

(Amounts in Thousands)	2012	2011	2010
Results of operations:			
Gross written premium	$ 1,334,493	$ 1,172,686	$ 904,553
Net earned premium	574,251	498,205	560,917
Income from continuing operations	42,731	54,046	70,034
Net income	42,731	54,046	119,211

26. Quarterly Financial Data (Unaudited)

The Company paid a ten percent stock dividend during the three months ended September 30, 2012. As such, the weighted average number of shares used for basic and diluted earnings per share have been adjusted retroactively for all periods presented and the prior quarter's basic and diluted earnings per share has been adjusted.

The following is a summary of the unaudited quarterly results of operations:

	2012			
(Amounts in Thousands)	March 31,	June 30,	September 30,	December 31,
Earned premium	$ 314,024	$ 333,994	$ 387,447	$ 383,387
Investment income	14,518	16,344	18,429	18,876
Net income	39,220	40,640	45,893	59,107
Income attributable to Common Shareholders	39,086	40,358	43,230	55,313
Basic EPS	$0.59	$0.60	$0.69	$0.82
Diluted EPS	$0.57	$0.59	$0.66	$0.79

	2011			
(Amounts in Thousands)	March 31,	June 30,	September 30,	December 31,
Earned premium	$ 200,338	$ 248,282	$ 288,848	$ 299,393
Investment income	14,192	13,167	14,456	13,700
Net income	53,322	59,918	40,182	37,742
Income attributable to Common Shareholders	45,183	50,162	37,166	37,923
Basic EPS	$0.69	$0.76	$0.60	$0.57
Diluted EPS	$0.67	$0.74	$0.58	$0.56

	2010			
(Amounts in Thousands)	March 31,	June 30,	September 30,	December 31,
Earned premium	$ 148,100	$ 196,261	$ 190,885	$ 210,413
Investment income	13,599	14,686	10,952	11,280
Net income	38,700	30,823	44,405	33,646
Income attributable to Common Shareholders	38,700	30,823	39,296	33,646
Basic EPS	$0.59	$0.47	$0.59	$0.52
Diluted EPS	$0.58	$0.46	$0.58	$0.51

27. Subsequent Event

Acquisition of Car Care Plan (Holdings) Limited

On October 31, 2012, the Company, through its wholly-owned subsidiary IGI Group Limited, entered into a purchase agreement with Ally Insurance Holdings, Inc. (“Ally”), pursuant to which the Company would acquire all of the issued and outstanding shares of capital stock of Car Care Plan (Holdings) Limited (“CCPH”), a wholly-owned subsidiary of Ally. CCPH is an administrator, insurer and provider of auto extended warranty, guaranteed asset protection, Wholesale Floorplan Insurance and other complementary insurance products. CCPH underwrites its products and the products of third-party administrators through its subsidiary Motors Insurance Company Limited, a U.K. insurer authorized by the Financial Services Authority. CCPH is headquartered in Thornbury, West Yorkshire in England with operations in the United Kingdom, Europe, China, North America and Latin America.

On February 28, 2013, the Company completed the purchase of CCPH for approximately $70,000, which represented the consolidated tangible book value of CCPH as of the closing, subject to certain adjustments, including reduction for costs relating to the transfer and reorganization of certain foreign subsidiaries, liabilities of CCPH in respect of certain pension plans maintained by CCPH, and costs relating to the transfer and maintenance of information technology. Ally agreed to a three-year non-compete and non-solicit, subject to certain limited exceptions, and will provide additional indemnity for liabilities of CCPH for certain pension plans previously maintained by affiliates of CCPH, tax liabilities and other matters. In addition, the parties have entered into other agreements, including a Transition Services Agreement, pursuant to which Ally will provide certain transitional services to IGI Group Limited and the Company, and two Reinsurance Agreements, pursuant to which affiliates of the Seller will reinsure certain insurance contracts of such affiliates with affiliates of IGI Group Limited.

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheet (In Thousands, Except Par Value)

	June 30, 2013		December 31, 2012	
ASSETS	(Unaudited)		(Audited)	
Investments:				
Fixed maturities, available-for-sale, at market value (amortized cost $2,731,738; $1,947,644)	$	2,730,830	$	2,065,226
Equity securities, available-for-sale, at market value (cost $24,815; $20,943)		25,895		20,465
Short-term investments		15,209		10,282
Equity investment in unconsolidated subsidiaries – related party		87,659		96,153
Other investments		24,779		11,144
Total investments		2,884,372		2,203,270
Cash and cash equivalents		449,634		414,370
Restricted cash and cash equivalents		163,868		78,762
Accrued interest and dividends		21,185		18,536
Premiums receivable, net		1,444,848		1,251,262
Reinsurance recoverable (related party $942,360; $789,519)		1,560,286		1,318,395
Prepaid reinsurance premium (related party $657,615; $547,128)		928,613		754,844
Prepaid expenses and other assets (recorded at fair value $208,694; $193,927)		517,052		421,163
Federal income tax receivable		3,414		16,609
Deferred policy acquisition costs		410,522		349,126
Property and equipment, net		92,531		75,933
Goodwill		246,719		229,780
Intangible assets		357,294		285,187
	$	9,080,338	$	7,417,237
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Loss and loss expense reserves	$	3,065,792	$	2,426,400
Unearned premiums		2,385,190		1,773,593
Ceded reinsurance premiums payable (related party $409,990; $333,962)		524,000		528,322
Reinsurance payable on paid losses		17,207		13,410
Funds held under reinsurance treaties		32,717		33,946
Note payable on collateral loan – related party		167,975		167,975
Securities sold but not yet purchased, at market		—		56,711
Securities sold under agreements to repurchase, at contract value		205,161		234,911
Accrued expenses and other current liabilities (recorded at fair value $12,513; $11,750)		758,061		406,447
Deferred income taxes		188,483		225,484
Debt		309,150		301,973
Total liabilities		7,653,736		6,169,172
Commitments and contingencies				
Redeemable non-controlling interest		600		600
Stockholders' equity:				
Common stock, $.01 par value; 150,000 shares authorized, 91,335 and 91,216 issued in 2013 and 2012, respectively; 67,618 and 67,192 outstanding in 2013 and 2012, respectively		912		912
Preferred stock, $.01 par value; 10,000 shares authorized, 4,600 and 0 issued and outstanding in 2013 and 2012, respectively		115,000		—
Additional paid-in capital		760,474		761,105
Treasury stock at cost; 23,716 and 24,024 shares in 2013 and 2012, respectively		(289,305)		(293,791)
Accumulated other comprehensive (loss) income		(26,620)		64,231
Retained earnings		756,916		611,664
Total AmTrust Financial Services, Inc. equity		1,317,377		1,144,121
Non-controlling interest		108,625		103,344
Total stockholders' equity		1,426,002		1,247,465
	$	9,080,338	$	7,417,237

See accompanying notes to unaudited condensed consolidated financial statements.

AmTrust Financial Services, Inc.
Condensed Consolidated Statements of Income
(Unaudited)
(In Thousands, Except Per Share Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Premium income:				
Net written premium	$ 639,997	$ 391,589	$ 1,172,103	$ 751,366
Change in unearned premium	(103,458)	(57,595)	(227,570)	(103,348)
Net earned premium	536,539	333,994	944,533	648,018
Ceding commission – primarily related party	67,157	44,550	131,115	90,824
Service and fee income (related parties – three months $14,414; $6,932 and six months $24,921; $13,024)	88,102	33,011	148,615	73,549
Net investment income	22,634	16,344	40,729	30,862
Net realized gain (loss) on investments	2,067	2,703	19,351	1,555
Total revenues	716,499	430,602	1,284,343	844,808
Expenses:				
Loss and loss adjustment expense	364,110	211,787	636,366	411,716
Acquisition costs and other underwriting expenses	192,559	129,713	349,379	253,738
Other	80,985	32,320	133,137	67,959
Total expenses	637,654	373,820	1,118,882	733,413
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	78,845	56,782	165,461	111,395
Other income (expense):				
Interest expense	(7,608)	(6,994)	(14,969)	(14,085)
Gain on investment in life settlement contracts net of profit commission	1,080	1,961	4	2,051
Foreign currency gain (loss)	783	(2,455)	2,055	(2,034)
Acquisition gain on purchase	31,956	—	58,023	—
Total other income (expense)	26,211	(7,488)	45,113	(14,068)
Income before income taxes and equity in earnings of unconsolidated subsidiaries	105,056	49,294	210,574	97,327
Provision for income taxes	31,993	11,742	55,910	22,919
Income before equity in earnings of unconsolidated subsidiaries	73,063	37,552	154,664	74,408
Equity in earnings of unconsolidated subsidiary – related party	7,059	3,088	8,610	5,452
Net income	80,122	40,640	163,274	79,860
Net (income) loss attributable to non-controlling interest of subsidiaries	—	(282)	877	(416)
Net income attributable to AmTrust Financial Services, Inc.	$ 80,122	$ 40,358	$ 164,151	$ 79,444
Earnings per common share:				
Basic earnings per share	$ 1.19	$ 0.60	$ 2.44	$ 1.20
Diluted earnings per share	$ 1.14	$ 0.59	$ 2.34	$ 1.16
Dividends declared per common share	$ 0.14	$ 0.10	$ 0.28	$ 0.19
Net realized gain on investments:				
Total other-than-temporary impairment loss	$ —	$ (1,208)	$ —	$ (1,208)
Portion of loss recognized in other comprehensive income	—	—	—	—
Net impairment losses recognized in earnings	—	(1,208)	—	(1,208)
Other net realized gain (loss) on investments	2,067	3,911	19,351	2,763
Net realized investment gain	$ 2,067	$ 2,703	$ 19,351	$ 1,555

See accompanying notes to unaudited condensed consolidated financial statements.

AmTrust Financial Services, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$ 80,122	$ 40,640	$ 163,274	$ 79,860
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	166	(7,057)	(15,565)	(2,860)
Change in fair value of interest rate swap	716	(570)	936	(627)
Unrealized gains on securities:				
Unrealized holding (loss) gain arising during period	(64,197)	2,358	(79,483)	33,117
Reclassification adjustment for (losses) gains included in net income	(275)	(2,232)	3,261	(4,676)
Other comprehensive (loss) income, net of tax	$ (63,590)	$ (7,501)	$ (90,851)	$ 24,954
Comprehensive income	16,532	33,139	72,423	104,814
Less: Comprehensive income (loss) attributable to non-controlling interest	—	282	(877)	416
Comprehensive income attributable to AmTrust Financial Services, Inc.	$ 16,532	$ 32,857	$ 73,300	$ 104,398

See accompanying notes to unaudited condensed consolidated financial statements.

AmTrust Financial Services, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(In Thousands)

	Six Months Ended June 30,	
	2013	**2012**
Cash flows from operating activities:		
Net income	$ 163,274	$ 79,860
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,294	17,419
Equity earnings on investment in unconsolidated subsidiaries	(8,610)	(5,452)
Gain on investment in life settlement contracts, net	(4)	(2,051)
Realized gain on marketable securities	(19,351)	(2,763)
Non-cash write-down of marketable securities	—	1,208
Discount on notes payable	1,454	1,515
Stock based compensation	4,781	2,746
Bad debt expense	9,754	2,479
Foreign currency (gain) loss	(2,055)	2,034
Acquisition gain	(58,023)	—
Dividend received from equity investment	12,203	—
Changes in assets - (increase) decrease:		
Premiums and note receivables	(121,384)	(41,556)
Reinsurance recoverable	(180,905)	(36,866)
Deferred policy acquisition costs, net	(61,396)	(54,707)
Prepaid reinsurance premiums	(173,769)	(70,009)
Prepaid expenses and other assets	(11,982)	(8,147)
Changes in liabilities - increase (decrease):		
Reinsurance premium payable	(7,752)	(13,043)
Loss and loss expense reserve	372,019	187,280
Unearned premiums	392,570	171,004
Funds held under reinsurance treaties	(1,229)	(10,062)
Accrued expenses and other current liabilities	207,122	4,122
Deferred tax liability	(49,408)	(510)
Net cash provided by operating activities	496,603	224,501
Cash flows from investing activities:		
Net (purchases) sales of securities with fixed maturities	(363,514)	(296,352)
Net (purchases) sales of equity securities	21,904	12,199
Net (purchases) sales of other investments	(3,289)	(332)
Acquisition of and capitalized premiums for life settlement contracts	(18,546)	(23,719)
Receipt of life settlement contract proceeds	6,047	10,074
Acquisition of subsidiaries, net of cash obtained	(72,867)	(3,822)
Increase in restricted cash and cash equivalents	(85,106)	(22,229)
Purchase of property and equipment	(23,355)	(14,701)
Net cash used in investing activities	(538,726)	(338,882)
Cash flows from financing activities:		
Preferred share issuance, net of fees	111,130	—
Common share issuance	472	—
Repurchase agreements, net	(29,750)	40,201
Convertible senior notes proceeds	—	25,000
Secured loan agreements payments	(777)	(482)

Promissory notes payments		—		(2,500)
Financing fees		—		(750)
Capital contribution to subsidiaries		6,158		9,831
Stock option exercise and other		2,472		4,102
Dividends distributed on common stock		(9,463)		(10,824)
Net cash provided by financing activities		80,242		64,578
Effect of exchange rate changes on cash		(2,855)		716
Net increase (decrease) in cash and cash equivalents		35,264		(49,087)
Cash and cash equivalents, beginning of the period		414,370		406,847
Cash and cash equivalents, end of the period	$	449,634	$	357,760
Supplemental Cash Flow Information				
Income tax payments	$	4,836	$	7,769
Interest payments on debt		10,602		10,706

See accompanying notes to unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements
(Unaudited)
(Dollars In Thousands, Except Per Share Data)

1. Basis of Reporting

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. These interim statements should be read in conjunction with the financial statements and notes thereto included in the AmTrust Financial Services, Inc. (“AmTrust” or the “Company”) Annual Report on Form 10-K for the year ended December 31, 2012 , previously filed with the Securities and Exchange Commission (“SEC”) on March 1, 2013. The balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

These interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim period and all such adjustments are of a normal recurring nature. The results of operations for the interim period are not necessarily indicative, if annualized, of those to be expected for the full year. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

A detailed description of the Company’s significant accounting policies and management judgments is located in the audited consolidated financial statements for the year ended December 31, 2012 , included in the Company’s Form 10-K filed with the SEC.

All significant inter-company transactions and accounts have been eliminated in the consolidated financial statements.

To facilitate period-to-period comparisons, certain reclassifications have been made to prior period consolidated financial statement amounts to conform to current period presentation.

2. Recent Accounting Pronouncements

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2013 , as compared to those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 , that are of significance, or potential significance, to the Company.

In June 2013, the Financial Accounting Standards Board ("FASB") issued Exposure Draft *Insurance Contracts* Topic 834. The exposure draft would impact all entities that write insurance contracts. If adopted, the guidance would supersede the requirements in ASC Topic 944, *Financial Services - Insurance* which currently apply to insurance entities. The guidance in the exposure draft would require a property and casualty insurer to measure its insurance contracts under the premium allocation approach, which would require an entity to record revenue over the coverage period on the basis of the expected timing of incurred claims. Comments on the exposure draft are due on October 25, 2013. If adopted, entities would be required to adopt this standard retrospectively. The Company is currently studying this exposure draft and the impact on the Company's results of operations, financial position or liquidity.

In March 2013, the FASB issued Accounting Standards Update ("ASU") 2013-05, *Parent’s Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets Within a Foreign Entity or of an Investment in a Foreign Entity* to standardize the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary. ASU 2013-05 will be applied prospectively and is effective for annual reporting periods beginning after December 15, 2013, and interim periods within those years. The standard is not expected to have a material impact on the Company’s results of operations, financial position or liquidity.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 supersedes and replaces the presentation requirements for the reclassifications out of accumulated other comprehensive income. None of the other requirements of previously issued ASUs related to comprehensive income are affected by ASU 2013-02. The Company adopted ASU 2013-02 on January 1, 2013 and the implementation of the standard did not have a material impact on the Company's results of operations, financial position or liquidity.

In January 2013, the FASB issued ASU No. 2013-01, *Clarifying the Scope of Disclosure about Offsetting Assets and Liabilities* ("ASU 2013-01"). ASU 2013-01 relates to derivatives, repurchase agreements and reverse repurchase agreements, and secured borrowings and lending transactions that are either offset or subject to a master netting arrangement. The amendment provides a user of financial statements with comparable information as it relates to certain reconciling differences between financial statements prepared in accordance with U.S. GAAP and those financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company adopted ASU 2013-02 on January 1, 2013 and the implementation of the standard did not have a material impact on the Company's results of operations, financial position or liquidity.

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles - Goodwill and Other (Topic 350) Testing Indefinite Lived Intangible Assets for Impairment* ("ASU 2012-02"). ASU 2012-02 updated guidance regarding the impairment test applicable to indefinite-lived intangible assets that is similar to the impairment guidance applicable to goodwill. Under the updated guidance, an entity may assess qualitative factors (such as changes in management, strategy, technology or customers) that may impact the fair value of the indefinite-lived intangible asset and lead to the determination that it is more likely than not that the fair value of the asset is less than its carrying value. If an entity determines that it is more likely than not that the fair value of the intangible asset is less than its carrying value, an impairment test must be performed. The impairment test requires an entity to calculate the estimated fair value of the indefinite-lived intangible asset. If the carrying value of the indefinite-lived intangible asset exceeds its estimated fair value, an impairment loss is recognized in an amount equal to the excess. The Company adopted this guidance on January 1, 2013 and it did not have any effect on the Company's results of operations, financial position or liquidity.

3. Investments

(a) Available-for-Sale Securities

The amortized cost, estimated market value and gross unrealized appreciation and depreciation of available-for-sale securities as of June 30, 2013 and December 31, 2012 , are presented in the table below:

(Amounts in Thousands) As of June 30, 2013	Original or amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Preferred stock	$ 3,303	$ 90	$ (118)	$ 3,275
Common stock	21,512	1,670	(562)	22,620
U.S. treasury securities	91,578	2,211	(106)	93,683
U.S. government agencies	8,594	206	(19)	8,781
Municipal bonds	447,303	7,188	(15,272)	439,219
Foreign government	75,486	548	(1,680)	74,354
Corporate bonds:				
Finance	916,406	34,182	(15,199)	935,389
Industrial	570,658	12,429	(26,071)	557,016
Utilities	71,213	1,279	(1,738)	70,754
Commercial mortgage backed securities	24,836	28	(296)	24,568
Residential mortgage backed securities:				
Agency backed	511,293	10,114	(8,506)	512,901
Non-agency backed	7,422	—	(194)	7,228
Asset-backed securities	6,949	—	(12)	6,937
	$ 2,756,553	$ 69,945	$ (69,773)	$ 2,756,725

Investments in foreign government securities include securities issued by national entities as well as instruments that are unconditionally guaranteed by such entities. As of June 30, 2013 , the Company's foreign government securities were issued or guaranteed primarily by France, the European Investment Bank, Israel and the United Kingdom.

(Amounts in Thousands) As of December 31, 2012	Original or amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Preferred stock	$ 5,092	$ 112	$ (20)	$ 5,184
Common stock	15,851	596	(1,166)	15,281
U.S. treasury securities	62,502	3,694	(4)	66,192
U.S. government agencies	39,594	707	—	40,301
Municipal bonds	287,361	12,833	(752)	299,442
Corporate bonds:				
Finance	830,101	68,190	(4,603)	893,688
Industrial	387,980	20,914	(1,094)	407,800
Utilities	45,320	2,611	(5)	47,926
Commercial mortgage backed securities	10,065	135	—	10,200
Residential mortgage backed securities:				
Agency backed	276,895	16,373	(654)	292,614
Non-agency backed	7,826	—	(763)	7,063
	$ 1,968,587	$ 126,165	$ (9,061)	$ 2,085,691

A summary of the Company's available-for-sale fixed securities as of June 30, 2013 and December 31, 2012 , by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2013		December 31, 2012	
(Amounts in Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 77,110	$ 77,711	$ 20,786	$ 21,945
Due after one through five years	449,566	455,158	400,865	414,016
Due after five through ten years	1,310,304	1,310,966	966,158	1,044,510
Due after ten years	344,258	335,361	265,049	274,878
Mortgage and asset backed securities	550,500	551,634	294,786	309,877
Total fixed maturities	$ 2,731,738	$ 2,730,830	$ 1,947,644	$ 2,065,226

Proceeds from the sale of investments in available-for-sale securities during the six months ended June 30, 2013 and 2012 were approximately $1,198,185 and $380,614 , respectively.

(b) Investment Income

Net investment income for the three months ended June 30, 2013 and 2012 was derived from the following sources:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2013	2012	2013	2012
Fixed maturity securities	$ 18,316	$ 16,059	$ 35,588	$ 29,723
Equity securities	3,887	100	4,289	498
Cash and short term investments	704	385	1,748	976
	22,907	16,544	41,625	31,197
Less:				
Investment expenses and interest expense on securities sold under agreement to repurchase	(273)	(200)	(896)	(335)
	$ 22,634	$ 16,344	$ 40,729	$ 30,862

(c) Other-Than-Temporary Impairment

The table below summarizes the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized position as of June 30, 2013 and December 31, 2012 :

(Amounts in Thousands) June 30, 2013	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	**Unrealized Losses**	**No. of Positions Held**	**Fair Market Value**	**Unrealized Losses**	**No. of Positions Held**	**Fair Market Value**	**Unrealized Losses**
Common and preferred stock	$ 9,712	$ (680)	101	$ —	$ —	—	$ 9,712	$ (680)
U.S. treasury securities	8,261	(106)	23	—	—	—	8,261	(106)
U.S. government agencies	4,143	(19)	9	—	—	—	4,143	(19)
Municipal bonds	271,039	(15,229)	322	2,013	(43)	1	273,052	(15,272)
Foreign government	63,677	(1,675)	10	994	(5)	1	64,671	(1,680)
Corporate bonds:								
Finance	418,558	(13,805)	288	56,957	(1,394)	8	475,515	(15,199)
Industrial	475,247	(26,071)	300	—	—	—	475,247	(26,071)
Utilities	48,414	(1,738)	34	—	—	—	48,414	(1,738)
Commercial mortgage backed securities	9,999	(296)	14	—	—	—	9,999	(296)
Residential mortgage backed securities:								
Agency backed	279,975	(8,506)	143	—	—	—	279,975	(8,506)
Non-agency backed	340	(5)	7	6,887	(189)	2	7,227	(194)
Asset-backed securities	6,937	(12)	13	—	—	—	6,937	(12)
Total temporarily impaired securities	$ 1,596,302	$ (68,142)	1,264	$ 66,851	$ (1,631)	12	$ 1,663,153	$ (69,773)

(Amounts in Thousands) December 31, 2012	Less Than 12 Months			12 Months or More			Total	
	Fair Market Value	**Unrealized Losses**	**No. of Positions Held**	**Fair Market Value**	**Unrealized Losses**	**No. of Positions Held**	**Fair Market Value**	**Unrealized Losses**
Common and preferred stock	$ 7,643	$ (1,138)	25	$ 1,978	$ (48)	1	$ 9,621	$ (1,186)
U.S. treasury securities	997	(4)	1	—	—	—	997	(4)
Municipal bonds	63,577	(752)	19	—	—	—	63,577	(752)
Corporate bonds:								
Finance	52,398	(899)	20	95,992	(3,704)	13	148,390	(4,603)
Industrial	82,066	(881)	28	9,105	(213)	4	91,171	(1,094)
Utilities	5,860	(5)	3	—	—	—	5,860	(5)
Residential mortgage backed securities:								
Agency backed	24,554	(654)	2	—	—	—	24,554	(654)
Non-agency backed	—	—	—	7,062	(763)	2	7,062	(763)
Total temporarily impaired securities	$ 237,095	$ (4,333)	98	$ 114,137	$ (4,728)	20	$ 351,232	$ (9,061)

There are 1,276 and 118 securities at June 30, 2013 and December 31, 2012 , respectively, that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company's cost basis.

(d) Derivatives

The Company from time to time invests in a limited number of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. The Company records changes in valuation on its derivative positions not designated as a hedge as a component of net realized gains and losses.

The Company records changes in valuation on its hedge positions as a component of other comprehensive income. As of June 30, 2013 and December 31, 2012, the Company had two interest rate swaps designated as hedges that were recorded as a liability in the total amount of $3,195 and $4,636 , respectively, and were included as a component of accrued expenses and other liabilities.

The following table presents the notional amounts by remaining maturity of the Company's interest rate swaps as of June 30, 2013 :

	Remaining Life of Notional Amount [1]				
(Amounts in Thousands)	One Year	Two Through Five Years	Six Through Ten Years	After Ten years	Total
Interest rate swaps	$ —	$ 70,000	$ —	$ —	$ 70,000

[1] Notional amount is not representative of either market risk or credit risk and is not recorded in the consolidated balance sheet.

(e) Restricted Cash and Investments

The Company, in order to conduct business in certain states, is required to maintain letters of credit or assets on deposit to support state mandated regulatory requirements and certain third party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets are primarily in the form of cash and certain high grade securities. The fair values of our restricted assets as of June 30, 2013 and December 31, 2012 are as follows:

(Amounts in Thousands)	2013	2012
Restricted cash	$ 163,868	$ 78,762
Restricted investments	329,634	251,082
Total restricted cash and investments	$ 493,502	$ 329,844

(f) Other

The Company entered into repurchase agreements that are subject to a master netting arrangement, which are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities that it invests or holds in short term or fixed income securities. As of June 30, 2013 , the Company had sixteen repurchase agreements with a market value of $205,161 principal amount outstanding at interest rates between .00% and .53% . The sixteen agreements are with one counter-party. Interest expense associated with these repurchase agreements for the three months ended June 30, 2013 and 2012 was $214 and $200 , respectively, of which $0 was accrued as of June 30, 2013 . The Company has approximately $266,399 of collateral pledged in support of these agreements. Interest expense related to repurchase agreements is recorded as a component of investment income. Additionally, during the three months ended June 30, 2013 , the Company closed its reverse repurchase agreement and did not incur any gain or loss as a result of this agreement.

4. Fair Value of Financial Instruments

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of June 30, 2013 and December 31, 2012 :

(Amounts in Thousands) **As of June 30, 2013**	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:				
U.S. treasury securities	$ 93,683	$ 93,683	$ —	$ —
U.S. government agencies	8,781	—	8,781	—
Municipal bonds	439,219	—	439,219	—
Foreign government	74,354	—	74,354	—
Corporate bonds and other bonds:				
Finance	935,389	—	935,389	—
Industrial	557,016	—	557,016	—
Utilities	70,754	—	70,754	—
Commercial mortgage backed securities	24,568	—	24,568	—
Residential mortgage backed securities:				
Agency backed	512,901	—	512,901	—
Non-agency backed	7,228	—	7,228	—
Asset-backed securities	6,937	—	6,937	—
Equity securities	25,895	25,895	—	—
Short term investments	15,209	15,209	—	—
Other investments	24,779	—	—	24,779
Life settlement contracts	208,694	—	—	208,694
	$ 3,005,407	$ 134,787	$ 2,637,147	$ 233,473
Liabilities:				
Securities sold under agreements to repurchase, at carrying value	205,161	—	205,161	—
Life settlement contract profit commission	12,513	—	—	12,513
Derivatives	3,195	—	3,195	—
	$ 220,869	$ —	$ 208,356	$ 12,513

(Amounts in Thousands) As of December 31, 2012	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$ 66,192	$ 66,192	$ —	$ —
U.S. government agencies	40,301	—	40,301	—
Municipal bonds	299,442	—	299,442	—
Corporate bonds and other bonds:				
Finance	893,688	—	893,688	—
Industrial	407,800	—	407,800	—
Utilities	47,926	—	47,926	—
Commercial mortgage backed securities	10,200	—	10,200	—
Residential mortgage backed securities:				
Agency backed	292,614	—	292,614	—
Non-agency backed	7,063	—	7,063	—
Equity securities	20,465	20,465	—	—
Short term investments	10,282	10,282	—	—
Other investments	11,144	—	—	11,144
Life settlement contracts	193,927	—	—	193,927
	$ 2,301,044	$ 96,939	$ 1,999,034	$ 205,071
Liabilities:				
Equity securities sold but not yet purchased, market	$ 11	$ 11	$ —	$ —
Fixed maturity securities sold but not yet purchased, market	56,700	56,700	—	—
Securities sold under agreements to repurchase, at carrying value	234,911	—	234,911	—
Life settlement contract profit commission	11,750	—	—	11,750
Derivatives	4,636	—	4,636	—
	$ 308,008	$ 56,711	$ 239,547	$ 11,750

The Company classifies its financial assets and liabilities in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. This classification requires judgment in assessing the market and pricing methodologies for a particular security. The fair value hierarchy includes the following three levels:

- Level 1 – Valuations are based on unadjusted quoted market prices in active markets for identical financial assets or liabilities.

Examples of instruments utilizing Level 1 inputs include: exchange-traded securities and U.S. Treasury bonds.

- Level 2 – Valuations of financial assets and liabilities are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets obtained from third party pricing services or valuations based on models where the significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Examples of instruments utilizing Level 2 inputs include: U.S. government-sponsored agency securities; non-U.S. government obligations; corporate and municipal bonds; mortgage-backed bonds, asset-backed securities and listed derivatives that are not actively traded.

- Level 3 – Valuations are based on unobservable inputs for assets and liabilities where there is little or no market activity. Management's assumptions are used in internal valuation pricing models to determine the fair value of financial assets or liabilities, which may include projected cash flows, collateral performance or liquidity circumstances in the security or similar securities that may have occurred since the prior pricing period.

Examples of instruments utilizing Level 3 inputs include: hedge and credit funds with partial transparency.

For additional discussion regarding techniques used to value the Company's investment portfolio, refer to Note 2. "Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data" in its 2012 Form 10-K.

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets and liabilities for the three and six months ended June 30, 2013 and 2012 :

(Amounts in Thousands)	Balance as of March 31, 2013	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2013
Other investments	$ 16,052	$ (17)	$ —	$ 9,770	$ (1,026)	$ —	$ 24,779
Life settlement contracts	199,824	10,889	—	—	(2,019)	—	208,694
Life settlement contract profit commission	(12,237)	(276)	—	—	—	—	(12,513)
Total	$ 203,639	$ 10,596	$ —	$ 9,770	$ (3,045)	$ —	$ 220,960

(Amounts in Thousands)	Balance as of December 31, 2012	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2013
Other investments	$ 11,144	$ 677	$ —	$ 14,881	$ (1,923)	$ —	$ 24,779
Life settlement contracts	193,927	20,815	—	—	(6,048)	—	208,694
Life settlement contract profit commission	(11,750)	(763)	—	—	—	—	(12,513)
Total	$ 193,321	$ 20,729	$ —	$ 14,881	$ (7,971)	$ —	$ 220,960

(Amounts in Thousands)	Balance as of March 31, 2012	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2012
Other investments	$ 14,865	$ (403)	$ —	$ 677	$ (36)	$ —	$ 15,103
Life settlement contracts	142,575	7,456	—	11,135	(10,074)	—	151,092
Life settlement contract profit commission	(12,050)	585	—	—	—	—	(11,465)
Derivatives	(3,595)	—	(877)	—	—	—	(4,472)
Total	$ 141,795	$ 7,638	$ (877)	$ 11,812	$ (10,110)	$ —	$ 150,258

(Amounts in Thousands)	Balance as of December 31, 2011	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2012
Other investments	$ 14,588	$ (4,352)	$ 4,535	$ 747	$ (415)	$ —	$ 15,103
Life settlement contracts	131,387	15,416	—	14,363	(10,074)	—	151,092
Life settlement contract profit commission	(12,022)	557	—	—	—	—	(11,465)
Derivatives	(3,508)	—	(964)	—	—	—	(4,472)
Total	$ 130,445	$ 11,621	$ 3,571	$ 15,110	$ (10,489)	$ —	$ 150,258

The Company had no transfers between levels during the three and six months ended June 30, 2013 and 2012.

The Company uses the following methods and assumptions in estimating its fair value disclosures for financial instruments:

- *Equity and Fixed Income Investments:* Fair value disclosures for these investments are disclosed above in this note. The carrying values of cash, short term investments and investment income accrued approximate their fair values and are classified as Level 1 in the financial hierarchy.
- *Premiums Receivable:* The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values due to the short term nature of the asset and are classified as Level 1 in the financial hierarchy.
- *Other Investments:* The Company has less than 1% percent of its investment portfolio in limited partnerships or hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy.
- *Equity Investment in Unconsolidated Subsidiaries - Related Party:* The Company has an approximate ownership percentage of 15.4% in National General Holding Corp., which completed a 144A offering during the three months ended June 30, 2013. The Company accounts for this investment under the equity method of accounting as it has the ability to exert significant influence. The fair value of the equity investment was approximately $129,900 as of June 30, 2013. The Company includes the estimate in the amount disclosed in Level 2 hierarchy.
- *Subordinated Debentures and Debt:* The current fair value of the Company's convertible senior notes and subordinated debentures was $279,800 and $69,816 as of June 30, 2013, respectively. These financial liabilities are classified as Level 3 in the financial hierarchy. The fair value of the convertible senior notes was determined using a binomial lattice model. The fair value of the subordinated debentures was determined using the Black-Derman-Toy interest rate lattice model.
- *Derivatives:* The Company classifies interest rate swaps as Level 2 hierarchy. The Company uses these interest rate swaps to hedge floating interest rates on its debt, thereby changing the variable rate exposure to a fixed rate exposure for interest on these obligations. The estimated fair value of the interest rate swaps, which is obtained from a third party pricing service, is measured using discounted cash flow analysis that incorporates significant observable inputs, including the LIBOR forward curve and a measurement of volatility.
- *Repurchase Agreements:* The carrying value of repurchase agreements in the accompanying balance sheets represents their fair values and are classified as Level 2 in the financial hierarchy.

The fair value of life settlement contracts as well as life settlement profit commission is based on information available to the Company at the end of the reporting period. The Company considers the following factors in its fair value estimates: cost at date of purchase, recent purchases and sales of similar investments, financial standing of the issuer, and changes in economic conditions affecting the issuer, maintenance cost, premiums, benefits, standard actuarially developed mortality tables and industry life expectancy reports. The fair value of a life insurance policy is estimated by applying an investment discount rate based on the cost of funding the Company's life settlement contracts as compared to returns on investments in asset classes with comparable credit quality, which the Company has determined to be 7.5% , to the expected cash flow generated by the policies in the Company's life settlement portfolio (death benefits less premium payments), net of policy specific adjustments and reserves. The Company adjusts the standard mortality for each insured for the insured's life expectancy based on reviews of the insured's medical records. The Company establishes policy specific reserves for the following uncertainties: improvements in mortality, the possibility that the high net worth individuals represented in its portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to the Company, and the future expenses related to the administration of the portfolio. The application of the investment discount rate to the expected cash flow generated by the portfolio, net of the policy specific reserves, yields the fair value of the portfolio. The effective discount rate reflects the relationship between the fair value and the expected cash flow. The following summarizes data utilized in estimating the fair value of the portfolio of life insurance policies as of June 30, 2013 and December 31, 2012 and, as described in Note 5. "Investments in Life Settlements", only includes data for policies to which the Company assigned value at those dates:

	June 30, 2013	December 31, 2012
Average age of insured	79.3 years	78.8 years
Average life expectancy, months [1]	135	139
Average face amount per policy	$ 6,748,000	$ 6,770,000
Effective discount rate	17.3%	17.7%

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[1] Standard life expectancy as adjusted for specific circumstances.

These assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The fair value measurements used in estimating the present value calculation are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonably vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value amount. If the life expectancies were increased or decreased by 4 months and the discount factors were increased or decreased by 1% while all other variables were held constant, the carrying value of the investment in life insurance policies would increase or (decrease) by the unaudited amounts summarized below as of June 30, 2013 and December 31, 2012 :

	Change in life expectancy	
(Amounts in Thousands)	Plus 4 Months	Minus 4 Months
Investment in life policies:		
June 30, 2013	$ (27,995)	$ 30,488
December 31, 2012	$ (27,160)	$ 29,285

	Change in discount rate	
(Amounts in Thousands)	Plus 1%	Minus 1%
Investment in life policies:		
June 30, 2013	$ (17,835)	$ 20,168
December 31, 2012	$ (17,591)	$ 19,926

5. **Investment in Life Settlements**

A life settlement contract is a contract between the owner of a life insurance policy and a third-party who obtains the ownership and beneficiary rights of the underlying life insurance policy. During 2010, the Company formed Tiger Capital LLC (“Tiger”) with a subsidiary of National General Holdings Corp. ("NGHC"), which changed its name from American Capital Acquisition Corporation, or ACAC, in April 2013, for the purposes of acquiring life settlement contracts. In 2011, the Company formed AMT Capital Alpha, LLC (“AMT Alpha”) with a subsidiary of NGHC and AMT Capital Holdings, S.A. (“AMTCH”) with ACP Re, Ltd., an entity controlled by the Michael Karfunkel 2005 Grantor Retained Annuity Trust, for the purposes of acquiring additional life settlement contracts. The Company has a 50% ownership interest in each of Tiger, AMT Alpha and AMTCH (collectively, the “LSC Entities”). The LSC Entities may also acquire premium finance loans made in connection with the borrowers’ purchase of life insurance policies that are secured by the policies, which are in default at the time of purchase. The LSC Entities acquire the underlying policies through the borrowers’ voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator of the Tiger life settlement contract portfolio, for which it receives an annual fee. The third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. The Company provides certain actuarial and finance functions related to the LSC Entities. Additionally, in conjunction with the Company’s 15.4% ownership percentage of NGHC, the Company ultimately receives 57.7% of the profits and losses of the LSC Entities. As such, in accordance with ASC 810-10, *Consolidation,* the Company has been deemed the primary beneficiary and, therefore, consolidates the LSC Entities. On March 28, 2013, ACP Re, Ltd. sold its interest in AMTCH to NGHC.

The Company accounts for investments in life settlements in accordance with ASC 325-30, *Investments in Insurance Contracts,* which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these policies using the fair value method. The Company determines fair value based upon its estimate of the discounted cash flow related to policies (net of the reserves for improvements in mortality, the possibility that the high net worth individuals represented in its portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to the Company, and the future expenses related to the administration of the portfolio), which incorporates current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available.

Total capital contributions of approximately $10,797 and $20,642 were made to the LSC Entities during the six months ended June 30, 2013 and 2012 , respectively, for which the Company contributed approximately $5,388 and $10,321 in those same periods. The LSC Entities used the contributed capital to pay premiums. The Company's investments in life settlements and premium finance loans were approximately $208,694 and $193,927 as of June 30, 2013 and December 31, 2012 , respectively, and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. The Company recorded a gain on investment in life settlement contracts net of profit commission for the three months ended June 30, 2013 and 2012 of approximately $1,080 and $1,961 , respectively, and $4 and $2,051 for the six months ended June 30, 2013 and 2012 of, respectively, related to the life settlement contracts.

In addition to the 261 policies disclosed in the table below as of June 30, 2013 , Tiger owned 2 premium finance loans as of the six months ended June 30, 2013 , which were secured by life insurance policies and were carried at a value of $0 . As of June 30, 2013 , the face value amounts, of the related 261 life insurance policies and 2 premium finance loans were approximately $1,701,909 and $0 , respectively. The premium finance loans are in default and Tiger is enforcing its rights in the collateral. Upon the voluntary surrender of the underlying life insurance policy in satisfaction of the loan or foreclosure, Tiger will become the owner of and beneficiary under the underlying life insurance policy and will have the option to continue to make premium payments on the policy or allow the policy to lapse. If a policyholder wishes to cure his or her default and repay the loan, Tiger will be repaid the total amount due under the premium finance loans, including all premium payments made by Tiger to maintain the policy in force since its acquisition of the loan.

The following table describes the Company's investment in life settlements as of June 30, 2013 :

(Amounts in Thousands, except number of Life Settlement Contracts) **Expected Maturity Term in Years**	**Number of Life Settlement Contracts**	**Fair Value [1]**	**Face Value**
0-1	—	$ —	$ —
1-2	6	35,177	58,000
2-3	3	8,062	15,000
3-4	3	11,691	30,000
4-5	2	3,345	10,000
Thereafter	247	150,419	1,588,909
Total	261	$ 208,694	$ 1,701,909

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[1] The Company determined the fair value as of June 30, 2013 based on 176 policies out of 261 policies, as the Company assigned no value to 85 of the policies as of June 30, 2013 . The Company estimated the fair value of a policy using present value calculations. If the estimate fair value is determined to be less than zero, then no value is assigned to that policy.

Premiums to be paid for each of the five succeeding fiscal years to keep the life insurance policies in force as of June 30, 2013 , are as follows:

(Amounts in Thousands)	**Premiums Due on Life Settlement Contracts**	**Premiums Due on Premium Finance Loans**	**Total**
2013	$ 30,318	$ 208	$ 30,526
2014	32,799	273	33,072
2015	34,487	283	34,770
2016	52,034	392	52,426
2017	31,479	265	31,744
Thereafter	522,233	3,209	525,442
Total	$ 703,350	$ 4,630	$ 707,980

6. Debt

The Company’s borrowings consisted of the following at June 30, 2013 and December 31, 2012 :

(Amounts in Thousands)	2013	2012
Revolving credit facility	$ —	$ —
Subordinated debentures	123,714	123,714
Convertible senior notes	162,672	161,218
Secured loan agreements	8,264	9,041
Promissory notes	14,500	8,000
	$ 309,150	$ 301,973

Aggregate scheduled maturities of the Company’s borrowings at June 30, 2013 are:

(Amounts in Thousands)	
2013	$ 516
2014	1,068
2015	1,116
2016	1,167
2017	1,220
Thereafter	304,063 [(1)]

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(1) Amount reflected in balance sheet for convertible senior notes is net of unamortized original issue discount of $37,328 .

Revolving Credit Agreement

In August 2012, the Company entered into a four -year, $200,000 credit agreement (the “Credit Agreement”), among JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and SunTrust Bank, as Co-Syndication Agents, Associated Bank, National Association and Lloyds Securities Inc., as Co-Documentation Agents and the various lending institutions party thereto. The credit facility is a revolving credit facility with a letter of credit sublimit of $100,000 and an expansion feature not to exceed $100,000 . Fees associated with the Credit Agreement were approximately $989 . The Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. There are also financial covenants that require the Company to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. The Company was in compliance with all covenants as of June 30, 2013 .

As of June 30, 2013 , the Company had no outstanding borrowings under this Credit Agreement. The Company had outstanding letters of credit in place under this Credit Agreement at June 30, 2013 for $49,163 , which reduced the availability for letters of credit to $50,837 as of June 30, 2013 , and the availability under the facility to $150,837 as of June 30, 2013 .

Borrowings under the Credit Agreement bear interest at (x) the greatest of (a) the Administrative Agent’s prime rate, (b) the federal funds effective rate plus 0.5 percent or (c) the adjusted LIBO rate for a one month interest period on such day plus 1 percent , plus (y) a margin that is adjusted on the basis of the Company’s consolidated leverage ratio. Eurodollar borrowings under the Credit Agreement will bear interest at the adjusted LIBO rate for the interest period in effect plus a margin that is adjusted on the basis of the Company’s consolidated leverage ratio. The interest rate on the credit facility as of June 30, 2013 was 1.75% . The Company recorded total interest expense of approximately $616 and $508 for the three months ended June 30, 2013 and 2012, respectively, and $1,176 and $1,018 for the six months ended June 30, 2013 and 2012, respectively, under revolving credit agreements.

Fees payable by the Company under the Credit Agreement include a letter of credit participation fee (which is the margin applicable to Eurodollar borrowings and was 1.50% at June 30, 2013), a letter of credit fronting fee with respect to each letter of credit (.125%) and a commitment fee on the available commitments of the lenders (a range of .20% to .30% based on the Company's consolidated leverage ratio and was .25% at June 30, 2013).

Junior Subordinated Debt

The Company has established four special purpose trusts for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in junior subordinated debentures issued by the Company. In accordance with FASB ASC 810-10-25, the Company does not consolidate such special purpose trusts, as the Company is not considered to be the primary beneficiary. The equity investment, totaling $3,714 as of June 30, 2013 on the Company's consolidated balance sheet, represents the Company's ownership of common securities issued by the trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on the Company's common stock under certain circumstances, including default of payment. The Company incurred $2,605 of placement fees in connection with these issuances which is being amortized over thirty years . The Company recorded $2,049 and $2,035 of interest expense for the three months ended June 30, 2013 and 2012 , respectively, and $4,048 and $4,226 of interest expense for the six months ended June 30, 2013 and 2012 , related to these trust preferred securities.

The table below summarizes the Company's trust preferred securities as of June 30, 2013 :

(Amounts in Thousands) Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate % of Notes
AmTrust Capital Financing Trust I	$ 25,000	$ 774	$ 25,774	3/17/2035	8.275 (1)
AmTrust Capital Financing Trust II	25,000	774	25,774	6/15/2035	7.710 (1)
AmTrust Capital Financing Trust III	30,000	928	30,928	9/15/2036	3.573 (2)
AmTrust Capital Financing Trust IV	40,000	1,238	41,238	3/15/2037	3.273 (3)
Total trust preferred securities	$ 120,000	$ 3,714	$ 123,714		

(1) The interest rate will change to three-month LIBOR plus 3.40% after the tenth anniversary in 2015.

(2) The interest rate is LIBOR plus 3.30% .

(3) The interest rate is LIBOR plus 3.00% .

The Company entered into two interest rate swap agreements related to these junior subordinated debentures, which effectively convert the interest rate on the trust preferred securities from a variable rate to a fixed rate. Each agreement is for a period of five years and commenced on September 15, 2011 for tranche III and March 15, 2012 for tranche IV.

Convertible Senior Notes

In December 2011, the Company issued $175,000 aggregate principal amount of its 5.5% convertible senior notes due 2021 (the "Notes") to certain initial purchasers in a private placement. In January 2012, the Company issued an additional $25,000 of the Notes to cover the initial purchasers' overallotment option. The Notes bear interest at a rate equal to 5.5% per year, payable semiannually in arrears on June 15th and December 15th of each year.

The Notes will mature on December 15, 2021 (the "Maturity Date"), unless earlier purchased by the Company or converted into shares of the Company's common stock, par value $0.01 per share (the "Common Stock"). Prior to September 15, 2021 , the Notes will be convertible only upon satisfaction of certain conditions, and thereafter, at any time prior to the close of business on the second scheduled trading day immediately preceding the Maturity Date. The conversion rate at June 30, 2013 is equal to 34.5759 shares of Common Stock per $1,000 principal amount of Notes, which corresponds to a conversion price of approximately $28.92 per share of Common Stock. The conversion rate is subject to adjustment upon the occurrence of certain events as set forth in the indenture governing the notes. Upon conversion of the Notes, the Company will, at its election, pay or deliver, as the case may be, cash, shares of Common Stock, or a combination of cash and shares of Common Stock.

Upon the occurrence of a fundamental change (as defined in the indenture governing the notes) involving the Company, holders of the Notes will have the right to require the Company to repurchase their Notes for cash, in whole or in part, at 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date.

The Company separately allocated the proceeds for the issuance of the Notes to a liability component and an equity component, which is the embedded conversion option. The equity component was reported as an adjustment to paid-in-capital, net of tax, and is reflected as an original issue discount ("OID"). The OID of $41,679 and deferred origination costs relating to the liability component of $4,750 will be amortized into interest expense over the term of the loan of the Notes. After considering the contractual interest payments and amortization of the original discount, the Notes effective interest rate was 8.57% . Transaction costs of $1,250 associated with the equity component were netted in paid-in-capital. Interest expense, including amortization of deferred origination costs, recognized on the Notes was $3,600 and $3,329 for the three months ended June 30, 2013 and 2012, respectively, and $7,192 and $6,873 for the six months ended June 30, 2013 and 2012, respectively.

The following table shows the amounts recorded for the Notes as of June 30, 2013 and December 31, 2012 :

(Amounts in Thousands)	June 30, 2013	December 31, 2012
Liability component		
Outstanding principal	$ 200,000	$ 200,000
Unamortized OID	(37,328)	(38,782)
Liability component	162,672	161,218
Equity component, net of tax	27,092	27,092

Secured Loan Agreement

During 2011, the Company, through a wholly-owned subsidiary, entered into a seven -year secured loan agreement with Bank of America Leasing & Capital, LLC in the aggregate amount of $10,800 to finance the purchase of an aircraft. The loan bears interest at a fixed rate of 4.45% , requires monthly installment payments of approximately $117 commencing on March 25, 2011 and ending on February 25, 2018 , and a balloon payment of $3,240 at the maturity date. The Company recorded interest expense of approximately $97 and $109 for the three months ended June 30, 2013 and 2012 , respectively, and approximately $198 and $221 of interest expense for the six months ended June 30, 2013 and 2012 , respectively, related to this agreement. The loan is secured by the aircraft.

The agreement contains certain covenants that are similar to the Company's revolving credit facility. Additionally, subsequent to February 25, 2012, but prior to payment in full, if the outstanding balance of this loan exceeds 90% of the fair value of the aircraft, the Company is required to pay the lender the entire amount necessary to reduce the outstanding principal balance to be equal to or less than 90% of the fair value of the aircraft. During the three months ended June 30, 2013 , the Company paid an additional $270 to reduce the outstanding principal balance as required by these terms. The agreement allows the Company, under certain conditions, to repay the entire outstanding principal balance of this loan without penalty.

Promissory Notes

In September 2012, as part of its participation in the New Market Tax Credit Program discussed in Note 13. "New Market Tax Credit", the Company entered into two promissory notes totaling $8,000 . The loans are for a period of 15 years and have an average interest rate of 1.7% per annum. The Company recorded interest expense of approximately $44 and $141 for the three and six months ended June 30, 2013 related to the notes. Additionally, the Company recorded approximately $1,430 of deferred financing fees.

In May 2013, as part of its acquisition of Mutual Insurers Holding Company ("MIHC") as discussed in Note 12. "Acquisitions", the Company assumed two promissory notes totaling $6,500 for which the principal is due in 2034 and 2035. The notes require the payment of interest on a quarterly basis and have an interest rate of 3.8% plus the three month libor per annum, which was 4.1% as of June 30, 2013 . The Company recorded $23 of interest expense related to these notes for the three months ended June 30, 2013 .

Other Letters of Credit

The Company, through one of its subsidiaries, has a secured letter of credit facility with Comerica Bank. The Company utilizes this letter of credit facility to comply with the deposit requirements of the State of California and the U.S. Department of Labor as security for the Company's obligations to workers' compensation and Federal Longshore and Harbor Workers' Compensation Act policyholders. The credit limit is for $75,000 and was utilized for $49,634 as of June 30, 2013 . The Company is required to pay a letter of credit participation fee for each letter of credit in the amount of 0.40% .

The Company, through certain subsidiaries, has additional existing stand-by letters of credit with various lenders in the amount of $50,476 as of June 30, 2013 .

7. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses for the three and six months ended June 30, 2013 and 2012 :

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2013	2012	2013	2012
Policy acquisition expenses	$ 120,630	$ 85,857	$ 222,318	$ 171,049
Salaries and benefits	65,982	40,832	111,111	76,617
Other insurance general and administrative expenses	5,947	3,024	15,950	6,072
	$ 192,559	$ 129,713	$ 349,379	$ 253,738

8. Earnings Per Share

Effective January 1, 2009, the Company adopted ASC subtopic 260-10, *Determining Whether Instruments Granted in Share-Based Payments Transactions Are Participating Securities* . ASC 260-10 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and are to be included in the computation of earnings per share under the two-class method. The Company's unvested restricted shares contain rights to receive nonforfeitable dividends and are participating securities, requiring the two-class method of computing earnings per share.

The Company paid a 10% stock dividend on September 20, 2012. As such, the weighted average number of shares used for basic and diluted earnings per share have been adjusted retroactively in the prior period. The impact on basic and diluted earnings per share was a decrease of $0.07 and $0.05 , respectively, for the three months ended June 30, 2012 . For the six months ended June 30, 2012 , the impact on basic and diluted earnings per share was a decrease of $0.12 and $0.11 , respectively.

The following table is a summary of the elements used in calculating basic and diluted earnings per share for the three and six months ended June 30, 2013 and 2012 :

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands, except for earnings per share)	2013	2012	2013	2012
Basic earnings per share:				
Net income attributable to AmTrust Financial Services, Inc. shareholders	$ 80,122	$ 40,358	$ 164,151	$ 79,444
Less: Net income allocated to participating securities and redeemable non-controlling interest	105	182	173	197
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$ 80,017	$ 40,176	$ 163,978	$ 79,247
Weighted average common shares outstanding – basic	67,399	66,728	67,258	66,424
Less: Weighted average participating shares outstanding	71	273	71	150
Weighted average common shares outstanding - basic	67,328	66,455	67,187	66,274
Net income per AmTrust Financial Services, Inc. common share - basic	$ 1.19	$ 0.60	$ 2.44	$ 1.20
Diluted earnings per share:				
Net income attributable to AmTrust Financial Services, Inc. shareholders	$ 80,122	$ 40,358	$ 164,151	$ 79,444
Less: Net income allocated to participating securities and redeemable non-controlling interest	105	182	173	197
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$ 80,017	$ 40,176	$ 163,978	$ 79,247
Weighted average common shares outstanding – basic	67,328	66,455	67,187	66,274
Plus: Dilutive effect of stock options, convertible debt, other	2,807	2,124	2,824	2,086
Weighted average common shares outstanding – dilutive	70,135	68,579	70,011	68,360
Net income per AmTrust Financial Services, Inc. common shares – diluted	$ 1.14	$ 0.59	$ 2.34	$ 1.16

As of June 30, 2013 , there were less than 20,000 anti-dilutive securities excluded from diluted earnings per share.

9. **Share Based Compensation**

The Company’s 2010 Omnibus Incentive Plan (the “Plan”), which permits the Company to grant to its officers, employees and non-employee directors incentive compensation directly linked to the price of the Company’s stock, authorizes up to an aggregate of 6,650,062 shares of Company stock for awards of options to purchase shares of the Company’s common stock, restricted stock, restricted stock units (“RSU”), performance shares units ("PSU") or appreciation rights. Shares used may be either newly issued shares or treasury shares or both. The aggregate number of shares of common stock for which awards may be issued may not exceed 6,650,062 shares, subject to the authority of the Company’s board of directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting the Company’s common stock. As of June 30, 2013 , approximately 5,000,000 shares of Company common stock remained available for grants under the Plan.

The Company recognizes compensation expense under FASB ASC 718-10-25 for its share-based payments based on the fair value of the awards. The Company grants stock options at prices equal to the closing stock price of the Company's stock on the dates the options are granted. The options have a term of ten years from the date of grant and vest primarily in equal annual installments over the four years period following the date of grant for employee options. The Company uses the simplified method in determining the expected life. Employees have three months after the employment relationship ends to exercise all vested options. The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. The Company grants restricted shares, RSUs and PSUs with a grant date value equal to the closing stock price of the Company's stock on the dates the shares or units are granted and the restricted shares and RSUs vest over a period of two to four years, while PSUs vest based on terms of the awards.

The Company paid a ten percent stock dividend on September 20, 2012. At the dividend date, all options outstanding were adjusted by ten percent and their respective exercise prices were reduced by ten percent, which ultimately resulted in each outstanding share having the same fair value immediately prior to and subsequent to the dividend date. Therefore, the Company did not record any additional compensation expense as a result of the stock dividend. The Company also adjusted outstanding RSUs, unvested restricted stock and PSUs, resulting in no additional compensation expense.

The following information and tables below for stock options, restricted stock and RSUs have been adjusted retroactively in all periods presented. The following schedule shows all options granted, exercised, and expired under the Plan for the six months ended June 30, 2013 and 2012 :

	2013		2012	
	Shares	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding at beginning of period	3,341,543	$ 10.35	4,136,466	$ 9.96
Granted	60,000	31.76	38,500	25.91
Exercised	(301,558)	8.00	(338,235)	8.26
Cancelled or terminated	—	—	(86,966)	12.98
Outstanding end of period	3,099,985	$ 11.00	3,749,765	$ 10.21

The weighted average grant date fair value of options granted during the six months ended June 30, 2013 and 2012 was approximately $8.94 and $8.47 , respectively.

A summary of the Company's restricted stock and RSU activity for the six months ended June 30, 2013 and 2012 is shown below:

	2013		2012	
	Shares or Units	**Weighted Average Grant Date Fair Value**	**Shares or Units**	**Weighted Average Grant Date Fair Value**
Non-vested at beginning of period	807,357	$ 22.95	320,334	$ 16.65
Granted	219,900	33.17	579,329	25.34
Vested	(230,444)	22.05	(84,755)	16.32
Forfeited	—	—	—	—
Non-vested at end of period	796,813	$ 26.03	814,908	$ 22.86

The Company has 420,180 PSUs granted as of June 30, 2013. PSUs are conditional grants of a specified maximum number of common shares. In general, grants are earned, subject to the attainment of pre-specified performance goals at the end of the pre-determined period. The fair value of these PSUs on the date of the grants was $12,052 .

Compensation expense for all share-based payments under ASC 718-10-30 was approximately $2,673 and $1,565 for the three months ended June 30, 2013 and 2012, respectively, and $4,781 and $2,746 for the six months ended June 30, 2013 and 2012 , respectively.

The intrinsic value of stock options exercised during the six months ended June 30, 2013 and 2012 was $7,485 and $6,341 , respectively. The intrinsic value of stock options that were outstanding as of June 30, 2013 and 2012 was $76,580 and $73,133 , respectively.

Cash received from options exercised was $2,472 and $4,102 during the six months ended June 30, 2013 and 2012, respectively. The excess tax benefit from award exercises was approximately $2,419 and $1,097 , respectively, for the six months ended June 30, 2013 and 2012.

10. Income Taxes

The following table is a reconciliation of the Company's statutory income tax expense to its effective tax rate for the three and six months ended June 30, 2013 and 2012 :

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2013	2012	2013	2012
Income before equity in earnings of unconsolidated subsidiaries	$ 105,056	$ 49,294	$ 210,574	$ 97,327
Tax at federal statutory rate of 35%	$ 36,770	$ 17,253	$ 73,701	$ 34,064
Tax effects resulting from:				
Net income of non-includible foreign subsidiaries	(10,605)	(5,697)	(25,169)	(10,265)
Other, net	5,828	186	7,378	(880)
	$ 31,993	$ 11,742	$ 55,910	$ 22,919
Effective tax rate	30.5%	23.8%	26.6%	23.5%

The Company's management believes that it will realize the benefits of its deferred tax assets, which is included as a component of the Company's net deferred tax liability, and, accordingly, no valuation allowance has been recorded for the periods presented. The earnings of certain of the Company's foreign subsidiaries have been indefinitely reinvested in foreign operations. Therefore, no provision has been made for any U.S. taxes or foreign withholding taxes that may be applicable upon any repatriation or disposition. The determination of any unrecognized deferred tax liability for temporary differences related to investments in certain of the Company's foreign subsidiaries is not practicable. At June 30, 2013 and December 31, 2012 , the financial reporting basis in excess of the tax basis for which no deferred taxes have been recognized was approximately $347,000 and $296,000 , respectively.

The Company's major taxing jurisdictions include the U.S. (federal and state), the United Kingdom and Ireland. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the Company's statute of limitation is open for tax years ended December 31, 2009 and forward. As permitted by FASB ASC 740-10, the Company has an accounting policy to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. At June 30, 2013 , the Company does not have any accrued interest and penalties related to unrecognized tax benefits in accordance with FASB ASC 740-10.

11. Related Party Transactions

Maiden

The Company has various reinsurance and service agreements with Maiden Holdings, Ltd. ("Maiden"). Maiden is a publicly-held Bermuda insurance holding company (Nasdaq: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, principal shareholders, and, respectively, the chairman of the board of directors, a director, and the chief executive officer and director of the Company. As of June 30, 2013 , our principal shareholders, Michael Karfunkel, Leah Karfunkel (wife of Michael Karfunkel and sole trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust), George Karfunkel and Barry Zyskind, own or control approximately 6.2% , 7.6% , 9.4% and 5.1% , respectively, of the issued and outstanding capital stock of Maiden. Mr. Zyskind serves as the non-executive chairman of the board of Maiden's board of directors. Maiden Insurance Company, Ltd ("Maiden Insurance"), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer. The following section describes the agreements in place between the Company and its subsidiaries and Maiden and its subsidiaries.

Reinsurance Agreements with Maiden Holdings, Ltd.

In 2007, the Company and Maiden entered into a master agreement, as amended, by which the parties caused the Company's Bermuda subsidiary, AmTrust International Insurance, Ltd. ("AII") and Maiden Insurance to enter into a quota share reinsurance agreement (the "Maiden Quota Share"), as amended, by which AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by the Company's U.S., Irish and U.K. insurance companies (the "AmTrust Ceding Insurers"), net of the cost of unaffiliated inuring reinsurance (and in the case of the Company's U.K. insurance subsidiary, AmTrust Europe Ltd. ("AEL"), net of commissions) and 40% of losses excluding certain specialty risk programs that the Company commenced writing after the effective date, including the Company's European medical liability business discussed below, and risks, other than workers' compensation risks and certain business written by the Company's Irish subsidiary, AmTrust International Underwriters Limited ("AIU"), for which the AmTrust Ceding Insurers' net retention exceeds $5,000 ("Covered Business").

On March 5, 2013, after receipt of approval from each of the Company's and Maiden's Audit Committee, the Company and Maiden executed an amendment to the Maiden Quota Share. The amendment provides that, effective January 1, 2013, AII receives a ceding commission of 31% of ceded written premiums with respect to all Covered Business other than retail commercial package business, for which the ceding commission remains 34.375% . With regards to the Specialty Program portion of Covered Business only, excluding workers' compensation business included in the Company's Specialty Program segment from July 1, 2007 through December 31, 2012, the Company will be responsible for ultimate net loss otherwise recoverable from Maiden Insurance to the extent that the loss ratio to Maiden Insurance, which shall be determined on an inception to date basis from July 1, 2007 through the date of calculation, is between 81.5% and 95% .

The Maiden Quota Share was renewed through July 1, 2016 and will automatically renew for successive three -year terms unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on thirty days' notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Insurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers.

Effective April 1, 2011 , the Company, through its subsidiaries AEL and AIU, entered into a reinsurance agreement with Maiden Insurance by which the Company cedes to Maiden Insurance 40% of its European medical liability business, including business in force at April 1, 2011. The quota share had an initial term of one year and was renewed through March 31, 2014. The agreement can be terminated by either party on four months' prior written notice. Maiden Insurance pays the Company a 5% ceding commission, and the Company will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65% .

Effective September 1, 2010, the Company, through its subsidiary, Security National Insurance Company ("SNIC"), entered into a reinsurance agreement with Maiden Reinsurance Company and an unrelated third party. Under the agreement, which had an initial term of one year and has been extended to August 31, 2013 , SNIC cedes 80% of the gross liabilities produced under the Southern General Agency program to Maiden Reinsurance Company and 20% of the gross liabilities produced to the unrelated third party. SNIC receives a five percent commission on ceded written premiums.

Excess of Loss Reinsurance with Maiden Reinsurance Company

In 2012, the Company, through its insurance company subsidiaries, entered into an excess of loss reinsurance arrangement with Maiden Reinsurance Company applicable to select automobile liability and general liability policies written in conjunction with a for-hire commercial automobile insurance program. This reinsurance arrangement allows the Company's insurance company subsidiaries to offer $2,000 limits, with the first $ 1,000 of ultimate net loss from any one policy and any one loss occurrence to be retained by the Company. Maiden Reinsurance Company would be responsible for the amount of ultimate net loss from any one policy and any one loss occurrence over $1,000 , but not to exceed $2,000 . There is no aggregate limit on this reinsurance arrangement. During the six months ended June 30, 2013, the Company wrote approximately $500 of gross written premium related to this arrangement.

The following is the effect on the Company's results of operations for the three months ended June 30, 2013 and 2012 related to Maiden Reinsurance agreements:

(Amounts in Thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Results of operations:				
Premium written – ceded	$ (283,052)	$ (196,380)	$ (588,838)	$ (387,281)
Change in unearned premium – ceded	31,060	26,378	109,156	50,961
Earned premium - ceded	$ (251,992)	$ (170,002)	$ (479,682)	$ (336,320)
Ceding commission on premium written	$ 82,511	$ 50,858	$ 172,010	$ 105,269
Ceding commission – deferred	(15,354)	(6,308)	(40,895)	(14,445)
Ceding commission – earned	$ 67,157	$ 44,550	$ 131,115	$ 90,824
Incurred loss and loss adjustment expense – ceded	$ 154,453	$ 125,970	$ 307,418	$ 248,780

Fronting Arrangement with Maiden Specialty Insurance Company

Effective September 1, 2010, the Company, through its subsidiary Technology Insurance Company, Inc. ("TIC"), entered into a quota share reinsurance agreement with Maiden Specialty Insurance Company ("Maiden Specialty") by which TIC assumes a portion (generally 90%) of premiums and losses with respect to certain surplus lines programs written by Maiden Specialty on behalf of the Company (the "Surplus Lines Facility"). The Surplus Lines Facility enables the Company to write business on a surplus lines basis throughout the United States. Currently, the Company is utilizing the Surplus Lines Facility for two programs for which Maiden Specialty receives a five percent ceding commission on all premiums ceded by Maiden Specialty to TIC. The Surplus Lines Facility shall remain continuously in force until terminated. The Company has obtained surplus lines authority for two of its insurance company subsidiaries, which has significantly decreased the need for the Surplus Lines Facility. As a result of this agreement, the Company assumed approximately $429 and $300 of written premium during the six months ended June 30, 2013 and 2012 , respectively. The Company recorded earned premium of approximately $198 and $679 and incurred losses of approximately $16 and $314 for the three and six months ended June 30, 2013 . The Company recorded earned premium of approximately $600 and $4,000 and incurred losses of approximately $700 and $2,800 for the three and six months ended June 30, 2012.

Note Payable to Maiden – Collateral for Proportionate Share of Reinsurance Obligations

In conjunction with the Maiden Quota Share, as described above, AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby Maiden Insurance loaned to AII the amount equal to its quota share of the obligations of the AmTrust Ceding Insurers that AII was then obligated to secure. The loan agreement provides for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Advances under the loan are secured by a promissory note and totaled $167,975 as of June 30, 2013 . The Company recorded $772 and $914 of interest expense during the three months ended June 30, 2013 and 2012 , respectively, and $1,471 and $1,542 of interest expense during the six months ended June 30, 2013 and 2012 , respectively. Effective December 1, 2008, AII and Maiden Insurance entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Insurance is required to provide AII the assets required to secure Maiden's proportional share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral as of June 30, 2013 was approximately $947,581 . Maiden retains ownership of the collateral in the trust account.

Reinsurance Brokerage Agreement

Effective July 1, 2007, the Company, through a subsidiary, entered into a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, the Company provides brokerage services relating to the Maiden Quota Share for a fee equal to 1.25% of reinsured premium. The Company recorded $6,783 and $2,151 of brokerage commission (recorded as a component of service and fee income) during the three months ended June 30, 2013 and 2012 , respectively, and $10,442 and $4,345 of brokerage commission during the six months ended June 30, 2013 and 2012 , respectively.

Asset Management Agreement

Effective July 1, 2007, the Company, through a subsidiary, entered into an asset management agreement with Maiden, pursuant to which the Company provides investment management services to Maiden and its affiliates. As of June 30, 2013 , the Company managed approximately $2,830,000 of assets related to this agreement. The investment management services fee is an annual rate of 0.20% for periods in which average invested assets are $1,000,000 or less and an annual rate of 0.15% for periods in which the average invested assets exceeds $1,000,000 . As a result of this agreement, the Company earned approximately $1,061 and $830 of investment management fees (recorded as a component of service and fee income) for the three months ended June 30, 2013 and 2012 , respectively, and $2,102 and $1,660 of investment management fees for the six months ended June 30, 2013 and 2012 , respectively.

Senior Notes

In June 2011, the Company, through a subsidiary, participated as a purchaser in a registered public offering by Maiden Holdings North America, Ltd., a subsidiary of Maiden, for $12,500 of an aggregate $107,500 principal amount of 8.25% Senior Notes due 2041 (the "Notes") that are fully and unconditionally guaranteed by Maiden. The Notes are redeemable for cash, in whole or in part, on or after June 15, 2016 , at 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but not including, the redemption date. The Company had an unrealized gain of $307 on the senior notes as of June 30, 2013 .

National General Holding Corp.

The Company has a strategic investment in National General Holding Corp. ("NGHC"), which was formally known as American Capital Acquisition Corporation, or ACAC. NGHC was formed by The Michael Karfunkel 2005 Grantor Retained Annuity Trust (the "Trust") and the Company for the purpose of acquiring from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation ("MIC", together with GMAC Insurance Holdings, Inc., "GMACI"), GMACI's U.S. consumer property and casualty insurance business (the "GMACI Business"), a writer of automobile coverages through independent agents in the United States. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the "GMACI Insurers"). From the time of the acquisition in 2010 until June 2013, Michael Karfunkel, individually, and the Trust owned 100% of NGHC's common stock (subject to the Company's conversion rights described below). Michael Karfunkel is the chairman of the board of directors of the Company and the father-in-law of Barry D. Zyskind, the chief executive officer of the Company. The ultimate beneficiaries of the Trust include Michael Karfunkel's children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman of the Board of Directors of NGHC.

Pursuant to the Amended Stock Purchase Agreement, NGHC issued and sold to the Company for an initial purchase price of approximately $53,000 , which was equal to 25% of the capital initially required by NGHC, 53,054 shares of Series A Preferred Stock, which provided an 8% cumulative dividend, was non-redeemable and was convertible, at the Company's option, into 21.25% of the issued and outstanding common stock of NGHC (the "Preferred Stock"). The Company had pre-emptive rights with respect to any future issuances of securities by NGHC and the Company's conversion rights were subject to customary anti-dilution protections. The Company had the right to appoint two members of NGHC's board of directors, which consists of up to six members. Subject to certain limitations, the board of directors of NGHC could not take any action at a meeting without at least one of the Company's appointees in attendance and NGHC could not take certain corporate actions without the approval of a majority of its board of directors (including the Company's two appointees).

On June 5, 2013, the Company converted its 53,054 shares of Series A Preferred Stock of NGHC into 42,958 shares of NGHC common stock, par value $0.01 per share, which became 12,295,430 shares of common stock after NGHC effected a 286.22:1 stock split on June 6, 2013. In addition, on June 5, 2013, NGHC declared the Company's cumulative dividend of approximately $12,203 on the Series A Preferred Stock payable through that date. On June 6, 2013, NGHC issued 21,850,000 shares in a 144A offering, which resulted in the Company owning 15.4% of the issued and outstanding common stock of NGHC. In accordance with ASC 323-10-15, ***Investments-Equity Method and Joint Ventures*** , the Company continues to account for its investment in NGHC under the equity method as it has the ability to exert significant influence on NGHC's operations. The Company recorded a gain on the sale of its investment of $8,644 as a result of the stock issuance, which is included in equity in earnings of unconsolidated subsidiary.

In total, the Company recorded $7,059 and $3,088 of income during the three months ended June 30, 2013 and 2012 , respectively, and $8,610 and $5,452 of income during the six months ended June 30, 2013 and 2012 , respectively, related to its equity investment in NGHC.

Personal Lines Quota Share

The Company reinsures 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement ("Personal Lines Quota Share") among Integon National Insurance Company, lead insurance company on behalf of the GMACI Insurers, as cedents, and the Company, ACP Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, receive 50% of the net premium of the GMACI Insurers and assume 50% of the related net losses. The Company has a 20% participation in the Personal Lines Quota Share, by which it receives 10% of the net premiums of the personal lines business and assumes 10% of the related net losses. The Personal Lines Quota Share, as amended on October 1, 2012, provides that the reinsurers pay a provisional ceding commission equal to 32.0% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.0% or less and a minimum of 30.0% if the loss ratio is 64.5% or higher. The Personal Lines Quota Share is subject to a premium cap that limits the premium that could be ceded by the GMACI Insurers to the Company to $146,410 during calendar year 2013 to the extent the Company was to determine, in good faith, that it could not assume additional premium. The premium cap increases by 10% per annum. As a result of this agreement, the Company assumed $28,975 and $28,823 of business from the GMACI Insurers during the three months ended June 30, 2013 and 2012 , respectively, and $59,627 and $59,432 of business from the GMACI Insurers during the six months ended June 30, 2013 and 2012 , respectively.

Accident and Health Portfolio Transfer and Quota Share

Effective January 1, 2013, the Company, through one of its subsidiaries, entered into a Portfolio Transfer and Quota Share Agreement (the "A&H Quota Share") with National Health Insurance Company ("NHIC"), a subsidiary of NGHC, related to the assumption by NHIC of the Company's book of A&H business. Pursuant to the A&H Quota Share, NHIC assumed 100% of the Company's loss and unearned premium reserves related to the book of A&H business, which total approximately $2,544 . For the existing book of business, NHIC paid the Company a ceding commission equal to the Company's acquisition costs and reinsurance costs of $474 . In addition, the Company agreed to continue to issue policies with respect to certain programs assumed by NHIC and certain new A&H programs for such new policies, for which the Company will cede 100% of the premiums related to such policies subject to a ceding commission of five percent plus its acquisition costs and reinsurance costs. The Company recorded approximately $115 and $210 of ceding commission for the three and six months ended June 30, 2013, related to the A&H Quota Share.

Master Services Agreement

The Company provides NGHC and its affiliates information technology development services in connection with the development and licensing of a policy management system at a cost which is currently 1.25% of gross written premium of NGHC and its affiliates plus the Company's costs for development and support services. In addition, the Company provides NGHC and its affiliates printing and mailing services at a per piece cost for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies the Company processes for NGHC and its affiliates on the policy management system. The Company recorded approximately $5,996 and $3,577 of fee income for the three months ended June 30, 2013 and 2012 , respectively, and $11,372 and $6,039 of fee income for the six months ended June 30, 2013 and 2012 , respectively, related to this agreement.

Asset Management Agreement

The Company manages the assets of NGHC and its subsidiaries for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1,000,000 or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1,000,000 . The Company managed approximately $856,000 of assets as of June 30, 2013 related to this agreement. As a result of this agreement, the Company earned approximately $490 and $373 of investment management fees for the three months ended June 30, 2013 and 2012 , respectively, and $853 and $746 of investment management fees for the six months ended June 30, 2013 and 2012 , respectively.

As a result of the above service agreements with NGHC, the Company recorded fees totaling approximately $6,486 and $3,950 for the three months ended June 30, 2013 and 2012 , respectively, and $12,225 and $6,785 for the six months ended June 30, 2013 and 2012 , respectively. As of June 30, 2013 , the outstanding balance payable by NGHC related to these service fees and reimbursable costs was approximately $10,011 .

800 Superior

In August 2011, the Company formed 800 Superior, LLC with a subsidiary of NGHC for the purposes of acquiring an office building in Cleveland, Ohio. The Company and NGHC each have a fifty percent ownership interest in 800 Superior, LLC. The cost of the building was approximately $7,500 . The Company has been appointed managing member of the LLC. Additionally, in conjunction with the Company's 15.4% ownership percentage of NGHC, the Company ultimately receives 57.7% of the profits and losses of the LLC. As such, in accordance with ASC 810-10, *Consolidation,* the Company has been deemed the primary beneficiary and, therefore, consolidates this entity.

Additionally in 2012, NGHC entered into an office lease with 800 Superior, LLC for approximately 134,000 square feet. The lease period is for fifteen years and NGHC paid 800 Superior, LLC $1,071 and $345 for the six months ended June 30, 2013 and 2012. As discussed in Note 13. "New Market Tax Credit," 800 Superior, LLC, the Company and NGHC participated in a financing transaction related to capital improvements on the office building. As part of that transaction, NGHC and the Company entered into an agreement related to the payment and performance guaranties provided by the Company to the various parties to the financing transaction whereby NGHC has agreed to contribute 50% toward any payments the Company is required to make pursuant to the guaranties.

Lease Agreements

The Company has an office lease for its office space at 59 Maiden Lane in New York, New York from 59 Maiden Lane Associates, LLC, an entity that is wholly-owned by Michael Karfunkel and George Karfunkel. The Company currently leases 39,992 square feet of office space and the lease term is through May 2023. The Company paid approximately $163 and $181 for the leased office space for the three months ended June 30, 2013 and 2012 , respectively, and $364 and $363 for the six months ended June 30, 2013 and 2012 , respectively.

In November 2012, the Company entered into an agreement for its office space in Chicago, Illinois. The lease is with 135 LaSalle Property, LLC, an entity that is wholly-owned by entities controlled by Michael Karfunkel and George Karfunkel. The lease term is through November 30, 2022. The aforementioned lease replaced an existing lease with another entity wholly-owned by the Karfunkels. The Company paid approximately $109 and $67 for these leases for the three months ended June 30, 2013 and 2012 , respectively, and $253 and $134 for the six months ended June 30, 2013 and 2012 , respectively.

Asset Management Agreement with ACP Re, Ltd.

The Company provides investment management services to ACP Re, Ltd. at (i) an annual rate of 0.20% of the average value of ACP Re, Ltd.'s invested assets, excluding investment in AmTrust stock, for the preceding calendar quarter if the average value of such assets for the quarter was $1,000,000 or less, or (ii) an annual rate of 0.15% of the average value of ACP Re, Ltd.'s invested assets, excluding investment in AmTrust stock, for the preceding calendar quarter if the average value of such assets for the quarter was greater than $1,000,000 . During the three months ended March 31, 2012, the Company also provided accounting and administrative services to ACP Re, Ltd. for a monthly fee of $10 . The Company managed approximately $109,000 of assets as of June 30, 2013 . The Company recorded approximately $58 and $0 for these services for the three months ended June 30, 2013 and 2012, respectively, and $110 and $233 for the six months ended June 30, 2013 and 2012, respectively.

Use of the Company Aircraft

The Company's wholly-owned subsidiary, AmTrust Underwriters, Inc. ("AUI"), is a party to an aircraft time share agreement with each of Maiden and NGHC. The agreements provide for payment to AUI for usage of its company-owned aircraft and covers actual expenses incurred and permissible under federal aviation regulations, including travel and lodging expenses of the crew, in-flight catering, flight planning and weather contract services, ground transportation, fuel, landing and hanger fees, airport taxes, among others. AUI does not charge Maiden or NGHC for the fixed costs that would be incurred in any event to operate the aircraft (for example, aircraft purchase costs, insurance and flight crew salaries). During the three and six months ended June 30, 2013 , and 2012, Maiden paid AUI $32 and NGHC paid AUI $109 for the use of AUI's aircraft under these agreements. In addition, during the three and six months ended June 30, 2012 , Maiden paid AUI $1 and $20 , respectively, and NGHC paid AUI $29 and $96 , respectively, for the use of AUI's aircraft under these agreements.

In addition, for personal travel, Mr. Zyskind, the Company's President and Chief Executive Officer and Michael Karfunkel, the Chairman of the Board, each entered into an aircraft reimbursement agreement with AUI and, since entering into such agreement, has fully reimbursed AUI for the incremental cost billed by AUI for their personal use of AUI's aircraft. Mr. Zyskind reimbursed the Company $57 for his personal use of AUI's aircraft during the three and six months ended June 30, 2013 , respectively, and reimbursed the Company $36 and $89 for his personal use during the three and six months ended June 30, 2012 , respectively.

12. Acquisitions

Mutual Insurers Holding Company

On May 13, 2013, the Company completed the acquisition of Mutual Insurers Holding Company ("MIHC") and its subsidiaries. MIHC's primary operating subsidiary, First Nonprofit Insurance Company ("FNIC"), is the third largest provider of property and casualty insurance products to nonprofit organizations in the U.S. In 2012, FNIC wrote approximately $70,000 of premium in 27 states. Immediately prior to the acquisition, MIHC converted from a mutual form to a stock form of ownership in a transaction "sponsored" by the Company. As required by the plan of conversion and applicable Delaware law, the Company offered shares of its common stock, at a discount to the market price, to the members of MIHC who held policies as of December 31, 2012 and the directors, officers and employees of MIHC and its subsidiaries. The Company received subscriptions for approximately $472 , resulting in the issuance by the Company of 18.052 shares of its common stock at a discounted price of 20% from the Company's market trading price, or approximately $118 . Pursuant to the stock purchase agreement, after the expiration of the offering, the Company purchased all of the authorized shares of capital stock of MIHC at a purchase price equal to the greater of the gross proceeds received by the Company in the offering, and $8,000 . The Company made a payment to MIHC of $48,500 for the stock of FNIC, which included the $472 in proceeds the Company received in the offering. Additionally, the Company as part of the transaction, was required to make a contribution to First Nonprofit Foundation, a tax exempt corporation principally funded by FNIC's predecessor and managed for the benefit of nonprofit organizations, in the amount of $7,882 , which represented $8,000 , as discussed above, less the discount of approximately $118 on the shares issued by the Company in the transaction. The remaining $40,618 of cash contributed to MIHC was retained by the Company. Additionally, the Company assumed $6,500 of debt in the transaction. In accordance with FASB ASC 805-10 *Business Combinations* , the Company recorded an acquisition price of approximately $14,500 .

A summary of the preliminary assets acquired and liabilities assumed for MIHC are as follows:

(Amounts in Thousands)		
Assets		
Cash and investments	$	134,780
Premium receivables		23,085
Other assets		42,151
Deferred tax asset		5,358
Property and equipment		2,684
Intangible assets		6,132
Total assets	$	214,190
Liabilities		
Loss and loss expense reserves	$	89,267
Unearned premium		27,760
Accrued liabilities		19,830
Deferred tax liability		2,146
Notes payable		6,500
Total liabilities	$	145,503
Cash paid	$	48,500
Acquisition gain	$	20,187

The intangible assets consisted of state licenses and have an indefinite life. The intangible assets, as well as FNIC's results of operations, are included as a component of the Small Commercial Business segment.

In accordance with FASB ASC 944-805 *Business Combinations* , the Company adjusted to fair value FNIC's loss and LAE reserves by taking the acquired loss reserves recorded and discounting them based on expected reserve payout pattern using a current risk free rate. This risk free interest rate was then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and the Company's best estimate of the fair value of such reserves at acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves and was approximately $4,531 .

As a result of this transaction, the Company recorded approximately $280 of fee income during the three months ended June 30, 2013 . Additionally, the Company recorded approximately $2,238 of written premium for the three months ended June 30, 2013 related to FNIC. The Company anticipates completing its acquisition accounting by the end of the third quarter of 2013.

CPPNA Holdings, Inc.

On May 3, 2013, the Company, through its wholly-owned subsidiary AMT Warranty Corp., completed the acquisition of CPPNA Holdings, Inc. (“CPPNA”) from CPP Group LLC, a company based in the United Kingdom, for approximately $40,000 . CPPNA provides administrative services for consumer protection products in the United States, including identity theft protection and warranties related to credit card purchases, to customers of CPPNA's financial services partners. In accordance with FASB ASC 805-10 *Business Combinations* , the Company recorded a purchase price of approximately $40,000 , which consisted primarily of goodwill and intangible assets of approximately $ 17,327 and $ 34,700 , respectively, and a deferred tax liability of $12,145 . The intangible asset consists of customer relationships and has a life of 12 years. The goodwill and intangibles, as well as CPPNA's results of operations, are included as a component of the Specialty Risk and Extended Warranty segment.

As a result of this transaction, the Company recorded approximately $11,367 of fee income during the three months ended June 30, 2013 . The Company anticipates completing its acquisition accounting by the end of the third quarter of 2013.

Sequoia Insurance Company

On April 19, 2013, the Company completed the acquisition of all the issued and outstanding shares of common stock of Sequoia Insurance Company and its subsidiaries, Sequoia Indemnity Company and Personal Express Insurance Company (“Sequoia”) for approximately $60,000 . Sequoia offers low hazard, property/casualty insurance products, including workers' compensation and commercial package insurance, to small businesses in several western states, with California representing Sequoia's largest market.

A summary of the preliminary assets acquired and liabilities assumed for Sequoia are as follows:

(Amounts in Thousands)		
Assets		
Cash and investments	$	215,473
Premium receivables		32,870
Reinsurance recoverables		43,793
Other assets		4,014
Deferred tax asset		7,780
Property and equipment		1,022
Intangible assets		11,848
Total assets	$	316,800
Liabilities		
Loss and loss expense reserves		165,487
Unearned premium		59,773
Accrued liabilities		15,624
Deferred tax liability		4,147
Total liabilities	$	245,031
Purchase price		60,000
Acquisition gain	$	11,769

The intangible assets consists primarily of licenses and trademarks and have an indefinite life. The intangible assets, as well as Sequoia's results of operations, are included as a component of the Small Commercial Business segment.

In accordance with FASB ASC 944-805 *Business Combinations* , the Company adjusted to fair value Sequoia's loss and LAE reserves by taking the acquired loss reserves recorded and discounting them based on expected reserve payout pattern using a current risk free rate. This risk free interest rate was then adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and the Company's best estimate of the fair value of such reserves at acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves and was approximately $7,448 .

As a result of this transaction, the Company recorded approximately $21,457 of written premium for the three months ended June 30, 2013 related to Sequoia. The Company anticipates completing its acquisition accounting by the end of the third quarter of 2013.

Car Care

On February 28, 2013, the Company, through its wholly-owned subsidiary IGI Group Limited, acquired all of the issued and outstanding shares of capital stock of Car Care Plan (Holdings) Limited ("CCPH") from Ally Insurance Holdings, Inc. CCPH is an administrator, insurer and provider of auto extended warranty, guaranteed asset protection (GAP), Wholesale Floorplan Insurance and other complementary insurance products. CCPH underwrites its products and the products of third-party administrators through its subsidiary Motors Insurance Company Limited, a UK insurer authorized by the Financial Services Authority. CCPH has approximately 350 employees and is headquartered in Thornbury, West Yorkshire in England with operations in the United Kingdom, Europe, China, North America and Latin America. The Company paid $70,420 for the purchase of CCPH. In connection with the closing of the transaction, the parties (or their affiliates) have agreed to enter into certain other agreements, including a transition services agreement, pursuant to which the Seller will provide certain transitional services to IGI Group Limited and the Company, and two reinsurance agreements, pursuant to which affiliates of the Seller will reinsure certain insurance contracts of such affiliates with affiliates of IGI Group Limited. The Company initially recorded approximately $39,986 of goodwill and intangible assets, which related to dealer relationships, trademarks and non-compete agreements. During the three months ended June 30, 2013, the Company adjusted certain assumed assets and liabilities as of the acquisition date. As a result, the Company recognized a retrospective gain on the acquisition of approximately $26,067 . The primary adjustments related to the reduction of an assumed liability for a pension plan of approximately $34,000 and the write-down of goodwill of approximately $7,739 .

As a result of this transaction, the Company recorded approximately $12,595 of fee income during the six months ended June 30, 2013 . Additionally, the Company recorded approximately $37,620 of written premium for the six months ended June 30, 2013 related to Car Care. The Company anticipates completing its acquisition accounting by the end of the third quarter of 2013.

A summary of the preliminary assets acquired and liabilities assumed for CCPH are as follows:

(Amounts in Thousands)		
Assets		
Cash and investments	$	253,257
Premium receivables		26,001
Reinsurance recoverables		12,186
Other assets		2,979
Property and equipment		589
Intangible assets		34,337
Total assets	$	329,349
Liabilities		
Loss and loss expense reserves	$	12,619
Unearned premium		131,494
Deferred tax liability		6,215
Accrued liabilities		82,534
Total liabilities	$	232,862
Purchase price		70,420
Acquisition gain	$	26,067

Additionally, certain employees, former employees and retirees of CCPH participate in a defined benefit pension plan. The plan was frozen and curtailed in 2007. The impact of the plan on the Company's results of operations was immaterial for the three and six months ended June 30, 2013.

First Nonprofit Companies, Inc.

On December 31, 2012, the Company completed the acquisition of First Nonprofit Companies, Inc. ("FNC") for approximately $55,000 . FNC serves approximately 1,500 nonprofit and government entities covering approximately $5,000,000 of annual payroll. FNC offers unique services as well as insurance programs that are designed to allow nonprofit and government entities to economically manage their unemployment tax obligations. In accordance with FASB ASC 805-10 *Business Combinations* , the Company recorded a purchase price of approximately $55,000 , which consisted primarily of goodwill and intangible assets of $28,210 and $40,500 , respectively. The intangible assets consist of customer relationships and have a life of 18 years. The goodwill and intangibles are included as a component of the Small Commercial Business segment. As a result of this transaction, the Company recorded approximately $5,320 and $10,775 of fee income for the three and six months ended June 30, 2013 .

CNH Capital's Insurance Agencies

In July 2012, the Company completed the acquisition of CNH Capital Insurance Agency Inc. and CNH Capital Canada Insurance Agency, Ltd., collectively known as "CNH Capital Insurance Agencies," from CNH Capital, the financial services business of CNH Global N.V., for approximately $34,000 . The acquisition allows the Company to enhance and expand CNH Capital Insurance Agencies' offering of equipment extended service contracts and other insurance products to Case IH, Case Construction, New Holland Agriculture and New Holland Construction equipment dealers in the United States and Canada. Additionally, the Company entered into service and license agreements with CNH Capital whereby the Company will make future payments based on gross revenues of the CNH Capital Insurance Agencies. In accordance with FASB ASC 805-10, *Business Combinations* , the Company recorded a purchase price of $34,000 , which consisted primarily of goodwill and intangible assets of approximately $21,340 and $19,400 , respectively. The intangible assets consist of renewal rights and licenses and have asset lives of between 5 and 10 years. The goodwill and intangibles are included as a component of the Specialty Risk and Extended Warranty segment. As a result of this transaction, the Company recorded approximately $8,987 and $14,309 of fee income during the three and six months ended June 30, 2013 . Additionally, the Company recorded approximately $6,022 and $26,513 of written premium for the three and six months ended June 30, 2013 related to the CNH Capital Insurance Agencies.

13. New Market Tax Credit

In September 2012, the Company's subsidiary, 800 Superior, LLC (an entity owned equally by the Company and NGHC) received $19,400 in net proceeds from a financing transaction the Company and NGHC entered into with Key Community Development Corporation ("KCDC") related to a capital improvement project for an office building in Cleveland, Ohio owned by 800 Superior, LLC. The Company, NGHC and KCDC collectively made capital contributions (net of allocation fees) and loans to 800 Superior NMTC Investment Fund II LLC and 800 Superior NMTC Investment Fund I LLC (collectively, the "Investment Funds") under a qualified New Markets Tax Credit ("NMTC") program. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (the "Act") and is intended to induce capital investment in qualified lower income communities. The Act permits taxpayers to claim credits against their federal income taxes for up to 39% of qualified investments in the equity of community development entities ("CDEs"). CDEs are privately managed investment institutions that are certified to make qualified low-income community investments ("QLICIs").

In addition to the capital contributions and loans from the Company, NGHC and KCDC, as part of the transaction, the Investment Funds received, directly and indirectly, proceeds of approximately $8,000 from two loans originating from state and local governments of Ohio. These loans are each for a period of 15 years and have an average interest rate of 1.7% per annum.

The Investment Funds then contributed the loan proceeds and capital contributions of $19,400 to two CDEs, which, in turn, loaned the funds on similar terms to 800 Superior, LLC. The proceeds of the loans from the CDEs (including loans representing the capital contribution made by KCDC, net of allocation fees) will be used to fund the capital improvement project. As collateral for these loans, the Company has granted a security interest in the assets acquired with the loan proceeds.

The Company and NGHC are each entitled to receive an equal portion of 49% of the benefits derived from the NMTCs generated by 800 Superior Investment Fund II LLC, while KCDC is entitled to the remaining 51% . The NMTC is subject to 100% recapture for a period of 7 years as provided in the Internal Revenue Code. During this seven-year compliance period, the entities involved are required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in the projected tax benefits not being realized and, therefore, could require the Company to indemnify KCDC for any loss or recapture of NMTCs related to the financing until such time as the obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement. In addition, this transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase KCDC's interest in the Investment Funds in September 2019 at the end of the recapture period. The Company believes that KCDC will exercise its put option and, therefore, attributed an insignificant value to the put/call.

The Company has determined that the Investment Funds are variable interest entities ("VIEs"). The ongoing activities of the Investment Funds - collecting and remitting interest and fees and NMTC compliance - were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the Investment Funds. When determining whether to consolidate the Investment Funds, Company management considered the contractual arrangements that obligate it to deliver tax benefits and provide various other guarantees to the structure, KCDC's lack of a material interest in the underling economics of the project, and the fact that the Company is obligated to absorb losses of the Investment Funds. Also, the Company has a 15.4% ownership in NGHC. The Company concluded that it was the primary beneficiary and consolidated the Investment Funds, as VIEs, in accordance with the accounting standard for consolidation. KCDC's contribution, net of syndication fees, is included as accrued liability in the accompanying condensed consolidated balance sheets. Direct costs incurred in structuring the financing arrangement are deferred and will be recognized as expense over the term of the loans. Incremental costs to maintain the structure during the compliance period are recognized as incurred.

14. Stockholder Equity and Accumulated Other Comprehensive Income

The following tables summarize accumulated other comprehensive income for the six months ended June 30, 2013 and 2012:

(Amounts in Thousands)	Foreign Currency Items	Unrealized Gains (Losses) on Investments	Interest Rate Swap Hedge	Accumulated Other Comprehensive Income
Balance, December 31, 2011	$ (17,091)	$ 9,372	$ (2,280)	$ (9,999)
Other comprehensive income before reclassifications	(2,860)	33,117	(627)	29,630
Amounts reclassed from accumulated other comprehensive income	—	(4,676)	—	(4,676)
Net current-period other comprehensive income	(2,860)	28,441	(627)	24,954
Balance, June 30, 2012	$ (19,951)	$ 37,813	$ (2,907)	$ 14,955
Balance, December 31, 2012	$ (10,361)	$ 77,605	$ (3,013)	$ 64,231
Other comprehensive income before reclassifications	(15,565)	(79,483)	936	(94,112)
Amounts reclassed from accumulated other comprehensive income	—	3,261	—	3,261
Net current-period other comprehensive (loss) income	(15,565)	(76,222)	936	(90,851)
Balance, June 30, 2013	$ (25,926)	$ 1,383	$ (2,077)	$ (26,620)

During the six months ended June 30, 2013 and 2012 amounts reclassed from accumulated other comprehensive income into net income were included in realized gain on investments.

The following table summarizes the ownership components of total stockholders' equity for the six months ended June 30, 2013 and 2012:

	2013			2012		
(Amounts in Thousands)	AmTrust	Non-Controlling Interest	Total	AmTrust	Non-Controlling Interest	Total
Beginning Balance	$ 1,144,121	$ 103,344	$ 1,247,465	$ 890,563	$ 69,098	$ 959,661
Net income (loss)	164,151	(877)	163,274	79,444	416	79,860
Unrealized holding (loss) gain	(79,483)	—	(79,483)	33,117	—	33,117
Reclassification adjustment	3,261	—	3,261	(4,676)	—	(4,676)
Foreign currency translation	(15,565)	—	(15,565)	(2,860)	—	(2,860)
Unrealized gain (loss) on interest rate swap	936	—	936	(627)	—	(627)
Share exercises, compensation and other	7,253	—	7,253	5,834	—	5,834
Dividends	(18,899)	—	(18,899)	(11,512)	—	(11,512)
Preferred share issuance, net of fees	111,130	—	111,130	—	—	—
Common share issuance	472	—	472	—	—	—
Capital contribution	—	6,158	6,158	—	9,831	9,831
Equity component of convertible senior notes, net of income tax and issue costs	—	—	—	3,306	—	3,306
Acquisition of non-controlling interest	—	—	—	6,900	(6,900)	—
Ending Balance	$ 1,317,377	$ 108,625	$ 1,426,002	$ 999,489	$ 72,445	$ 1,071,934

On June 10, 2013, the Company issued 4,600,000 shares of 6.75% Non-Cumulative Preferred Stock. Dividends on the Series A Preferred Stock when, as and if declared by the Company's Board of Directors or a duly authorized committee of the Board will accrue and be payable on the liquidation preference amount, on a non-cumulative basis, quarterly in arrears on the 15th day of March, June, September and December of each year (each, a "dividend payment date"), commencing on September 15, 2013, at an annual rate of 6.75% .

Dividends on the Series A Preferred Stock are not cumulative. Accordingly, in the event dividends are not declared on the Series A Preferred Stock for payment on any dividend payment date, then those dividends will not accumulate and will not be payable. If the Company has not declared a dividend before the dividend payment date for any dividend period, the Company will have no obligation to pay dividends for that dividend period, whether or not dividends on the Series A Preferred Stock are declared for any future dividend payment.

On May 10, 2013, the Company issued 18.052 shares of common stock at a price of $26.17 per share in connection with the purchase of MIHC as described more fully in Note 12. "Acquisitions".

15. Contingent Liabilities

Litigation

The Company’s insurance subsidiaries are named as defendants in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the loss and LAE reserves. The Company’s management believes the resolution of those actions will not have a material adverse effect on the Company’s financial position or results of operations.

16. Segments

The Company currently operates four business segments, Small Commercial Business; Specialty Risk and Extended Warranty; Specialty Program and Personal Lines Reinsurance. The "Corporate & Other" segment represents the activities of the holding company as well as a portion of service and fee revenue. In determining total assets (excluding cash and invested assets) by segment, the Company identifies those assets that are attributable to a particular segment such as deferred acquisition cost, reinsurance recoverable, goodwill, intangible assets and prepaid reinsurance while the remaining assets are allocated based on gross written premium by segment. In determining cash and invested assets by segment, the Company matches certain identifiable liabilities such as unearned premium and loss and loss adjustment expense reserves by segment. The remaining cash and invested assets are then allocated based on gross written premium by segment. Investment income and realized gains (losses) are determined by calculating an overall annual return on cash and invested assets and applying that overall return to the cash and invested assets by segment. Ceding commission revenue is allocated to each segment based on that segment's proportionate share of the Company's overall acquisition costs. Interest expense is allocated based on gross written premium by segment. Income taxes are allocated on a pro-rata basis based on the Company's effective tax rate. Additionally, management reviews the performance of underwriting income in assessing the performance of and making decisions regarding the allocation of resources to the segments. Underwriting income excludes, primarily, service and fee revenue, investment income and other revenues, other expenses, interest expense and income taxes. Management believes that providing this information in this manner is essential to providing Company's shareholders with an understanding of the Company's business and operating performance.

During the six months ended June 30, 2013 , the Company's Specialty Risk and Extended Warranty segment derived over ten percent of its total revenue from two brokers or customers. During the six months ended June 30, 2013 , the Company's Specialty Program segment derived over ten percent of its revenue from one broker.

The following tables summarize the results of operations of the business segments for the three and six months ended June 30, 2013 and 2012 :

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Three months ended June 30, 2013:						
Gross written premium	$ 389,911	$ 447,885	$ 173,843	$ 28,975	$ —	$ 1,040,614
Net written premium	218,553	290,272	102,197	28,975	—	639,997
Change in unearned premium	(30,253)	(82,122)	8,479	438	—	(103,458)
Net earned premium	188,300	208,150	110,676	29,413	—	536,539
Ceding commission - primarily related party	28,322	23,405	15,430	—	—	67,157
Loss and loss adjustment expense	(124,368)	(144,050)	(75,820)	(19,872)	—	(364,110)
Acquisition costs and other underwriting expenses	(76,931)	(62,846)	(43,799)	(8,983)	—	(192,559)
	(201,299)	(206,896)	(119,619)	(28,855)	—	(556,669)
Underwriting income	15,323	24,659	6,487	558	—	47,027
Service and fee income	21,233	52,347	(5)	—	14,527	88,102
Investment income and realized gain	12,239	8,563	3,442	457	—	24,701
Other expenses	(30,607)	(33,934)	(14,138)	(2,306)	—	(80,985)
Interest expense	(2,845)	(3,295)	(1,257)	(211)	—	(7,608)
Foreign currency gain	—	783	—	—	—	783
Gain on life settlement contracts	430	376	239	35	—	1,080
Acquisition gain on purchase	31,956	—	—	—	—	31,956
Provision for income taxes	(12,829)	(14,946)	1,289	385	(5,892)	(31,993)
Equity in earnings of unconsolidated subsidiary – related party	—	—	—	—	7,059	7,059
Non-controlling interest	(11)	38	(25)	(2)	—	—
Net income attributable to AmTrust Financial Services, Inc.	$ 34,889	$ 34,591	$ (3,968)	$ (1,084)	$ 15,694	$ 80,122

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Three months ended June 30, 2012:						
Gross written premium	$ 214,127	$ 272,610	$ 121,878	$ 28,823	$ —	$ 637,438
Net written premium	104,270	172,259	86,237	28,823	—	391,589
Change in unearned premium	(10,702)	(30,652)	(15,369)	(872)	—	(57,595)
Net earned premium	93,568	141,607	70,868	27,951	—	333,994
Ceding commission - primarily related party	15,458	16,174	12,918	—	—	44,550
Loss and loss adjustment expense	(60,305)	(85,628)	(47,826)	(18,028)	—	(211,787)
Acquisition costs and other underwriting expenses	(42,165)	(44,038)	(34,985)	(8,525)	—	(129,713)
	(102,470)	(129,666)	(82,811)	(26,553)	—	(341,500)
Underwriting income	6,556	28,115	975	1,398	—	37,044
Service and fee income	10,545	15,429	10	—	7,027	33,011
Investment income and realized gain (loss)	6,759	8,123	3,475	690	—	19,047
Other expenses	(10,742)	(14,078)	(6,062)	(1,438)	—	(32,320)
Interest expense	(2,343)	(3,035)	(1,307)	(309)	—	(6,994)
Foreign currency loss	—	(2,455)	—	—	—	(2,455)
Gain on life settlement contracts	714	813	352	82	—	1,961
Provision for income taxes	(2,576)	(7,379)	575	1,430	(3,792)	(11,742)
Equity in earnings of unconsolidated subsidiary – related party	—	—	—	—	3,088	3,088
Non-controlling interest	(100)	(119)	(51)	(12)	—	(282)
Net income attributable to AmTrust Financial Services, Inc.	$ 8,813	$ 25,414	$ (2,033)	$ 1,841	$ 6,323	$ 40,358

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Six months ended June 30, 2013:						
Gross written premium	$ 765,760	$ 776,214	$ 382,935	$ 59,627	$ —	$ 1,984,536
Net written premium	392,293	474,714	245,469	59,627	—	1,172,103
Change in unearned premium	(77,393)	(125,410)	(23,315)	(1,452)	—	(227,570)
Net earned premium	314,900	349,304	222,154	58,175	—	944,533
Ceding commission - primarily related party	52,488	41,413	37,214	—	—	131,115
Loss and loss adjustment expense	(208,698)	(237,021)	(151,374)	(39,273)	—	(636,366)
Acquisition costs and other underwriting expenses	(132,761)	(104,749)	(94,126)	(17,743)	—	(349,379)
	(341,459)	(341,770)	(245,500)	(57,016)	—	(985,745)
Underwriting income	25,929	48,947	13,868	1,159	—	89,903
Service and fee income	43,336	80,066	67	—	25,146	148,615
Investment income and realized gain	24,277	23,454	10,844	1,505	—	60,080
Other expenses	(51,373)	(52,074)	(25,690)	(4,000)	—	(133,137)
Interest expense	(5,776)	(5,855)	(2,888)	(450)	—	(14,969)
Foreign currency gain	—	2,055	—	—	—	2,055
Gain on life settlement contracts	1	2	1	—	—	4
Acquisition gain on purchase	31,956	26,067	—	—	—	58,023
Provision for income taxes	(17,435)	(31,289)	969	456	(8,611)	(55,910)
Equity in earnings of unconsolidated subsidiary – related party	—	—	—	—	8,610	8,610
Non-controlling interest	339	343	169	26	—	877
Net income attributable to AmTrust Financial Services, Inc.	$ 51,254	$ 91,716	$ (2,660)	$ (1,304)	$ 25,145	$ 164,151

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Six months ended June 30, 2012:						
Gross written premium	$ 446,478	$ 506,699	$ 226,516	$ 59,432	$ —	$ 1,239,125
Net written premium	223,160	313,420	155,354	59,432	—	751,366
Change in unearned premium	(37,264)	(36,240)	(24,825)	(5,019)	—	(103,348)
Net earned premium	185,896	277,180	130,529	54,413	—	648,018
Ceding commission - primarily related party	32,590	33,368	24,866	—	—	90,824
Loss and loss adjustment expense	(119,529)	(169,071)	(88,020)	(35,096)	—	(411,716)
Acquisition costs and other underwriting expenses	(85,095)	(87,123)	(64,924)	(16,596)	—	(253,738)
	(204,624)	(256,194)	(152,944)	(51,692)	—	(665,454)
Underwriting income	13,862	54,354	2,451	2,721	—	73,388
Service and fee income	25,980	33,647	19	—	13,903	73,549
Investment income and realized gain	12,252	13,164	5,808	1,193	—	32,417
Other expenses	(24,865)	(28,113)	(12,167)	(2,814)	—	(67,959)
Interest expense	(5,153)	(5,827)	(2,522)	(583)	—	(14,085)
Foreign currency loss	—	(2,034)	—	—	—	(2,034)
Gain on life settlement contracts	751	848	367	85	—	2,051
Provision for income taxes	(5,090)	(14,726)	1,348	(135)	(4,316)	(22,919)
Equity in earnings of unconsolidated subsidiary – related party	—	—	—	—	5,452	5,452
Non-controlling interest	(153)	(172)	(74)	(17)	—	(416)
Net income attributable to AmTrust Financial Services, Inc.	$ 17,584	$ 51,141	$ (4,770)	$ 450	$ 15,039	$ 79,444

The following tables summarize long lived assets and total assets of the business segments as of June 30, 2013 and December 31, 2012 :

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and other	Total
As of June 30, 2013:						
Property and equipment, net	$ 35,704	$ 36,192	$ 17,855	$ 2,780	$ —	$ 92,531
Goodwill and intangible assets	246,201	333,537	24,275	—	—	604,013
Total assets	3,708,747	3,727,190	1,480,297	164,104	—	9,080,338
As of December 31, 2012:						
Property and equipment, net	$ 25,789	$ 30,897	$ 15,984	$ 3,263	$ —	$ 75,933
Goodwill and intangible assets	245,330	245,139	24,498	—	—	514,967
Total assets	2,778,136	3,127,543	1,330,005	181,553	—	7,417,237

17. Subsequent Events

Entry into Agreement to Acquire Sagicor Europe Limited

On July 29, 2013, the Company announced that one of its wholly-owned subsidiaries entered into an agreement to acquire Sagicor Europe Limited from Sagicor Financial Corporation for approximately £56,000 , which is £15,000 above Sagicor Europe Limited's net asset value as of December 31, 2012. Among the assets to be acquired are a managing agency and two Lloyd's syndicates; a property/casualty insurance syndicate 1206 with stamp capacity of £200,000 and a life insurance syndicate 44 with stamp capacity of £7,000 , as well as a Cayman Islands domiciled reinsurance entity. The transaction is expected to close in the fourth quarter of 2013.

Termination Notice of Personal Lines Quota Share

On August 1, 2013, the Company and its wholly-owned subsidiary, Technology Insurance Company, Inc. (“TIC”) received notice from Integon National Insurance Company (“Integon”), a wholly-owned subsidiary of NGHC, that Integon was terminating, effective August 1, 2013, TIC's participation in the Personal Lines Quota Share. As a result of this agreement, TIC assumed approximately $59,627 of business during the six months ended June 30, 2013, resulting in $1,159 of underwriting income for that period. The termination is on a run-off basis, meaning TIC will continue to receive net premiums and assume related net losses with respect to policies in force as of July 31, 2013 through the expiration of such policies. As the Company will retain all assumed written premium through July 31, 2013 and the continuing cash flows associated with the business, the Company will not present the Personal Lines Segment as a discontinued operation in accordance with ASC 205-20 *Discontinued Operations.*